Austria Sch. 18	Indonesia Rp 7500	Portugal Esc 75
Bahrain Din 0.650	Italy L 1100	S. Arabia Rls 8.00
Belgium BFr 38	Japan Y650	Singapore S$ 4.10
Canada C$2.00	Jordan Fils 500	Spain Pta 100
Cyprus Mils 600	Kuwait Fils 500	Sri Lanka Rup 30
Denmark DKr 7.25	Lebanon LL 6.00	Sweden SKr 8.50
Egypt LE1.00	Luxembourg LFr 38	Switzerland SFr 2.00
Finland Fmk 5.50	Malaysia Rin 4.25	Taiwan NT$ 65
France Fr 6.00	Mexico Pes. 300	Tunisia Din 0.600
Germany DM 2.20	Morocco Dh 6.00	Turkey L 160
Greece Dr 80	Netherlands Fl 2.50	U.A.E. Dh 6.50
Hong Kong HK$ 12	Norway Kr. 8.00	U.S.A. $1.50
India Rup 15	Philippines Pes. 20	

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,337 — Monday June 4 1984 — D 8523 B

U.S. finance and investment survey, Section III

NEWS SUMMARY

GENERAL

Security operation launched in Punjab

The Indian army clamped down on the troubled nothern state of Punjab, imposing a 36-hour curfew, a news blackout, and closing the border with neighbouring state Haryana.

Carrying of firearms was forbidden and all bus and train services were suspended. The army moved into trouble spots and took up a number of positions about 200 yards from the Golden Temple in Amritsar, which serves as headquarters for Sikh extremists.

This is the biggest security operation in any Indian region since Premier Indira Gandhi introduced a nationwide emergency in 1975, which led to her being voted out of office. Page 16

Joint manoeuvres

France, which is no longer a Nato member, is to stage joint military exercises with West Germany, said Defence Minister Charles Hernu.

Anti-Nato protest

About 300,000 protestors gathered in Madrid to call for withdrawal from Nato and the closure of U.S. bases in Spain. Page 2

Malaysian find

Malaysian navy divers recovered 29 elephant tusks, 43 ceramic pieces and 139 tin ingots among objects salvaged from the Dutch ship Risdam, which sank off Mersing in 1727.

Classic winner

Darshaan, owned by the Aga Khan and ridden by Yves Saint-Martin, won the Prix du Jockey Club (the French Derby) at Chantilly. First prize was FFr 1m ($121,000).

Honduran attack

Honduran-based rebels attacked Nicaragua's northern town of Ocotal in the first major strike in two years of cross-border incursions.

Cuban visit

U.S. presidential candidate, Mr Jesse Jackson, accepted an invitation to discuss Cuban-U.S. relations with Cuban president Fidel Castro. Page 2

Beirut demonstration

Demonstrators marched through West Beirut at the start of a week of protests marking the second anniversary of Israel's occupation of south Lebanon.

Flight puzzle

France began an investigation into how a Mirage V combat aircraft, abandoned by its pilot after take-off because of a technical hitch, continued flying for 180 km over heavily populated areas into West Germany before crashing near a motorway.

Textiles plea

THE EEC is urged to rethink its policies on the textiles and clothing industries in a report published by the UK Trades Union Congress. Page 7

Harrier crash

A spectator was killed by an ejector seat when a British Harrier fighter crashed yesterday during a display at an airfield near Aschaffenburg, east of Frankfurt. The pilot escaped.

Prost a winner

Alain Prost of France, driving a McLaren, was declared provisional winner of the Monaco formula one grand prix. Heavy rain caused officials to stop the race after 31 of the 76 laps.

BUSINESS

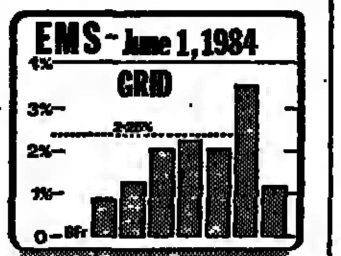
Austrian GM to lay off 1,300

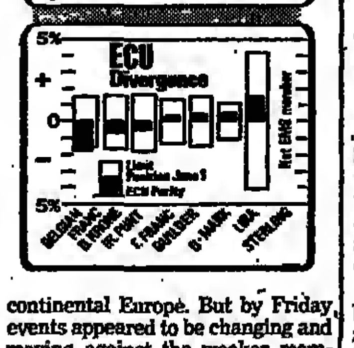
GENERAL Motors, Austria, will lay off more than half its 2,400 workforce at its plant in Vienna today, as a result of strikes and lock-outs in West Germany. Page 2

DENMARK: New equity financing this year is expected to top DKr 1.6bn ($160m). Page 18

SGS-ATES, Italy's leading microelectronics company, broke into the black last year for the first time in more than a decade. Page 18

FOREIGN exchanges were generally quiet last week, mainly because of Ascension Day holidays in





continental Europe. But by Friday, events appeared to be changing and moving against the weaker members of the European Monetary System. Speculation about lower U.S. interest rates pushed the dollar down sharply, and lifted the D-Mark to its highest level against the dollar since late April. A firmer D-Mark usually leaves currencies such as the Belgian franc trailing in its wake, and although there was no immediate sign of strong pressure, any continuation of the trend will give the Belgian National Bank cause for concern.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

THE LAURENTIAN Group, including subsidiary Imperial Life Assurance of Canada – has acquired an interest of more than 10 per cent in Le Groupe Pallas, a Luxembourg-based investment bank.

HONDA Motor Company is to announce a major investment in the Canadian motor industry. It reportedly plans to assemble its small Accord and Civic models. Page 4

WESTLAND Group of the UK has offered Australia's aerospace industry a 20 per cent partnership in the production of its new Westland 30 transport helicopter. On the drawing board, Page 6

AUSTRIAN Finance Minister Herbert Salcher is expected to resign after a dispute with Chancellor Fred Sinowatz over tax reform. Page 2

COMMODORE, the leading U.S. home computer maker, has introduced a *$300 machine that could* spark a price war.

CHINA will have detailed talks this month on a new airport on its side of the border, with UK participation. Page 5

The editorial content of today's international edition has been restricted because of continuing industrial action by IG Druck und Papier at Frankfurter Societäts-Druckerei, where the edition is printed. This prevents the publication of late-breaking news.

Reagan sheds a tear over his ancestral soil

BY REGINALD DALE IN BALLYPOREEN, TIPPERARY

PRESIDENT Ronald Reagan received a warm, if rain-spattered welcome in his ancestral home yesterday, pronouncing himself "a common labourer" like his impoverished Irish forebears.

President Reagan, who seemed moved by the occasion, handled his official homecoming with the same relaxed but professional skill he has shown at his three public appearances since arriving in Ireland on Friday night.

Leaving the brief ceremony outside O'Farrell's pub in the centre of the small village of Ballyporeen, he was reliably reported to have been seen wiping a genuine tear from his eye.

The threatened protests against President Reagan's Central American and nuclear policies have so far had less impact on his three-day Irish visit than the White House – highly sensitive about his election-year image – had originally feared.

Although the Irish have not given President Reagan the enthusiastic reception accorded to President John F. Kennedy a quarter of a century ago, and more recently to the Pope, he has generally been received with cordiality and good humour.

He has probably hardly noticed the demonstrators, who have been kept at arm's length by the massive security forces, and even the 1,500 or so who gathered in the rain to protest at his visit to Galway on Saturday were as good natured as they were hostile.

President Reagan has called for peace and reconciliation between Catholics and Protestants in Northern Ireland and applauded the work of the New Ireland Forum. He has not so far openly interfered in an issue that he says should be settled between the governments and the communities directly involved, however.

While there is opposition to his visit, many Irish people seem to be divided between a suspicion that they are being used for electoral purposes and awareness that American investment and the U.S. economic recovery have made a major contribution to the Irish economy in general and the creation of new jobs in particular.

He has not drawn big crowds. Many people who might otherwise have turned out to see him have clearly been deterred by reports of the tight security – unprecedented in Ireland – and it has been difficult for more than a handful of spectators to get even the briefest glimpse of him. Yesterday, however, the streets of Dublin were virtually deserted while the capital's inhabitants watched his pilgrimage to Ballyporeen live on television.

President Reagan said that he had "a joyous feeling" about "coming home" to Ballyporeen, as if "after a long journey."

Mr Reagan sat in the rain through an Irish "cultural performance" of song, dance and music, visited the newly named Ronald Reagan lounge at O'Farrell's and smilingly "worked the crowd" on a short walk from the church to the village centre.

Once again he spoke a few words in faltering Irish and seemed even to adopt a slight brogue for the opening part of his speech.

Meanwhile, just down the road, the price of souvenir packets of Mr Reagan's ancestral soil had risen from 30p to over £1 a piece.

Reuters offer set to succeed

By William Hall in New York and Maggie Urry in London

THE CONTROVERSIAL offer for sale by Reuters, the international news agency and business information group, is believed to have been successful. After counting of applications for the tender offer in London over the weekend, it is thought that the issue has been oversubscribed.

Even at the striking price it is likely that applications will have to be scaled down, so that some unsatisfied demand is left to help keep the share price up in the first few days of dealings.

However, earlier hopes that the striking price could be as high as 235p now look wide of the mark, and a price nearer the bottom end of recent expectations of 196p to 210p is probable. At the 196p price, Reuters as a whole would be valued at £771m ($1.08bn) if all the shares available were issued.

Reuters would receive £50m from the issue, the rest going to existing shareholders who are selling part of their holdings.

At 196p the prospective priced earnings ratio on Reuters' forecast of £70m pre-tax profits in 1984, would be 19 and the gross yield 1.8 per cent.

The result of the tender offer in the UK will be announced at 3pm British summer time today, and dealings will start at 3.30pm.

The issue has been complicated by simultaneous offerings in London and New York. In London 57m B shares were available at a minimum tender price of 180p. The striking price fixed in London will be used as the basis for the price at which the issue is underwritten in New York.

There is a minimum of 49.8m B shares on sale in New York, though if demand requires that figure can be raised to 57m. A total of 114m shares would represent 29 per cent of Reuters' share capital.

Directors of merchant banks to the issue S. G. Warburg and N. M. Rothschild, with partners of Cazenove and Hoare Govett the UK brokers and representatives of the U.S. firms involved – Merrill Lynch and Morgan Stanley – met yesterday at Warburg's London offices. They agreed the striking price, and broadly the basis of allocation for the UK issue.

Letters of acceptance are to be posted to applicants on Friday June 8, so until they have received those letters, those expecting to receive shares sell them at their own risk.

Applications had to be put in by last Friday afternoon, by hand, or Saturday morning by post.

Iran poised for ground offensive against Iraq

BY KATHLEEN EVANS IN TEHERAN AND MARY FRINGS IN BAHRAIN

AN IRANIAN ground offensive against Iraq is imminent – if it has not already started – diplomats in Tehran said last night, although there has been no official confirmation from Iranian officials.

Growing speculation of an offensive which would involve at least 250,000 regular Iranian army troops and possibly twice that number of volunteers and elite groups, came as Iraq claimed two attacks on ships in the Gulf, one of which was confirmed by Iran.

Although Iran has seemed to back away from tit-for-tat shipping raids recently, the attack on the 153,000 dwt Turkish-owned oil tanker Buyuk Hun, 50 miles south of the main Iranian oil terminal on Kharg Island, could well lead to a naval retaliation along with the ground war.

The Buyuk Hun, which is owned by Un Denizcilik Ticaret AS of Istanbul was hit by a missile in the accommodation quarters, shipping officials in Bahrain said. The Iranian newsagency said the crew had abandoned ship.

The tug Paris, on contract to Smith International but owned by the Bahrain-based marine service company Awalco, was standing off the blazing tanker last night and a spokesman for Awalco said two Iranian tugs were also close to the scene.

The raid on the Buyuk Hun produced the first confirmed strike on a merchant ship in the Gulf since May 24 when the Liberian tanker Chemical Venture was hit, apparently by Iranian aircraft.

The Turkish vessel was the tenth tanker known to have been hit in the waterway since mid-April.

It was learned from Western diplomats in Bahrain yesterday that Iraq expects to receive from the Soviet Union by August at the latest weapons capable of knocking out the oil terminal on Kharg island. These include SS21 surface-to-surface missiles and some MiG 25s and MiG 29s.

Iraq also expects to get T72 tanks to stiffen resistance on the ground. In response to reports of an imminent Iranian drive Iraq yesterday said its forces were on full alert and ready to repel any attack.

The Iranian offensive is expected to be a two-pronged one with a feint to the north to distract attention from the expected main thrust towards Basra in the marsh area of southern Iraq.

In Tehran, diplomats said the Iranians appear to be awaiting the outcome of a number of small operations before officially confirming the start of the ground offensive. There have apparently already been infiltrations by Iranian forces in the southern marshes.

If the limited operations are successful then an announcement should be expected soon. In previous offensives the Iranians delayed

Continued on Page 16

Tanker chartering, Page 4

Exchange rates hit German, U.S. trade

By William Hall in New York

VOLATILE exchange rates have led to a significant reduction in international trade between West Germany and the U.S., two of the world's biggest trading nations, according to a new study by economists at the Federal Reserve Bank of New York.

Virtually all previously published research on the economic consequences of floating exchange rates has generally concluded that exchange rate uncertainty has not had a significant adverse effect on the volume of trade.

Research published two months ago by the International Monetary Fund reached this negative general conclusion.

The New York Fed study, which is based on more recent data, provides the first real evidence that "exchange rate variability reduces the volume of international trade in manufactured goods."

Its conclusions are based on the floating rate experience of only two countries, Germany and the U.S. However, the economists who conducted the study said last week that they "believed further research would produce similar results for trade between other countries."

Although the study does not use its findings to advocate an end to floating exchange rates, its conclusions will strengthen the hand of policymakers who have argued intuitively that volatile exchange rates have had significant harmful effects on trade. Until now they have not been able to support this view with empirical evidence.

The New York study shows that if U.S.-German trade between 1977 and 1981 had been conducted under a less variable exchange rate regime, such as occurred from 1967 to

Continued on Page 16

Bonn to seek lower rates, Page 2

Chinese may be allowed to buy industry shares

BY CHRISTIAN TYLER, TRADE EDITOR, IN LONDON

THE CHINESE people may be given the chance to become private shareholders in state industry under plans being actively considered by the leadership.

Economic planners are debating whether to issue stocks to Chinese nationals and foreigners in order to fund high-priority capital projects such as power stations.

The stocks would have to be marketable, but it remained to be decided how the market would operate, Jing Shuping, executive director of China International Trust and Investment Corporation (Citic), told the Financial Times yesterday.

"If they are not transferable, then I do not think they will be attractive," he said. "Whether we will have a stock exchange or not, that's a little too far away to say," he added.

The scheme has been under discussion for some time and has been the subject of economic papers. Jing said he thought the idea was "nearly ripe" and could possibly be introduced sometime next year.

Asked how private shareholdings could be reconciled with China's socialist system, Jing said that the investments would be "for the benefit of the whole Chinese economic plan." The state would retain a controlling interest and would remain the "dominant factor."

He pointed out that Chinese citizens were already allowed to buy houses for private ownership and even to lease small factories in some parts of the country. "What is the difference between owning a TV, owning a house and owning stocks?", he asked. Small private businesses like shops were encouraged and would be promoted even further, he said.

Commenting on China's controlled privatisation programme in general, Jing said: "I think this is just the beginning. I think it will develop so that the state will concentrate more on how to regulate overall demand and supply and how to satisfy demand by the general public."

Jing was on a short private visit to London to meet senior industrialists and politicians and to discuss how foreign investment and technology transfer to China could be increased.

Citic is planning to hold a top-level private conference on the subject in Peking later this year, to which leading American and European business and political figures are being invited.

Zhao Ziyang, China's premier, is presently visiting six European countries with the same aims in mind. Jing said China attached great importance to its commercial relations with Europe.

That is because of Japanese reluctance to transfer technology to China and because the U.S., although now willing to do so, is seen by some Chinese officials as still mainly preoccupied with its domestic market.

Meanwhile, Jing said, China could be close to signing its first big overseas joint investment agreement. The Ministry of Metallurgy is studying proposals from iron ore companies in Western Australia. Citic is also looking at Canada and the U.S. for suitable partners in the timber and pulp industries, and possibly also in potash, phosphate and copper.

Patent law problems, Page 5

Japanese companies prepare to launch telecom challenge

BY ROBERT COTTRELL IN TOKYO

A GROUP of leading Japanese industrial companies has formally launched a new telecommunication consortium to challenge the publicly owned Nippon Telegraph and Telephone (NTT) as a common carrier of communications, as soon as pending legislation allows.

The new company is to be known as Daini-Denden (DD), which translates roughly as "number two phone company," and at its first board meeting last week elected as chairman Mr Kazuo Inamori, founder and chief executive of Kyocera, the world's leading manufacturer of ceramic integrated circuits.

DD will have an initial paid up capital of Y1.6bn ($7m), which is expected to be increased by further equity issues.

Kyocera is leading a group of five "core" shareholders, which between them own 80 per cent of DD.

Its partners are Sony, the electronics group, Ushio, the special lamp and optical equipment maker, Secom, the security systems manufacturer, and Mitsubishi Corporation, the trading house and industrial holding company.

A further 20 Japanese companies hold smaller stakes in the new venture.

DD is intended to exploit the more liberal Japanese telecommunications market due to be created next April when legislation is expected to end NTT's monopoly as a common carrier.

The new climate will also allow Japanese and foreign companies to compete to provide the data communications services known as "value-added networks" (vans).

DD plans to make feasibility studies of optical fibre, microwave and satellite links for domestic and international telecommunications.

It expects to begin providing services in 1986, in the Tokyo-Osaka urban corridor which houses Japan's main concentration of industry and commerce.

Analysts estimate that a large-capacity optical-fibre network through the Tokyo-Osaka corridor could cost Y30bn-50bn.

DD is something of a personal triumph for Mr Inamori, whose consortium has been rapidly increasing its credibility as a challenger to NTT since it was informally launched in March.

Some analysts believe that, in the long term, telecommunications and information-related grouping could become an important force in the Japanese corporate world, comparable to the groupings of trading and industrial companies around major banks.

Mitsubishi Corporation, which had originally planned its own common-carrier project, is now expected to confine itself to participation in the Kyocera-led group.

Fujitsu, Japan's largest computer manufacturer, is investigating the feasibility of setting up its own Japan-wide van network.

IBM is also thought to be interested in the van field, while Matsushita and Hitachi, two of Japan's largest electronics manufacturers, are studying major van networks for use in-house.

The potential development of competitive telecommunications networks also promises a strategic role to the state-owned Japan national railways, Japan highway public corporation, and domestic utilities, along whose routes and power lines new optical fibre cables could be laid.

CONTENTS

OVERSEAS NEWS

U.S. plans further talks with Managua following Shultz visit

BY STEWART FLEMING IN WASHINGTON

THE U.S. is planning further negotiations with the Nicaraguan Government following Secretary of State George Shultz's surprise visit to Managua last Friday and has named a State Department official, Mr Harry W. Schlaudeman, to head its negotiating team.

After attending the inauguration ceremonies for the new President of El Salvador Sr Jose Napoleon Duarte, Mr Shultz flew unexpectedly to Nicaragua for two-and-a-half hours of talks with Sr Daniel Ortega, the Nicaraguan head of state.

Mr Shultz's detour came only weeks after President Reagan in a television address on May 9 described the Sandinista regime as a "communist reign of terror." The U.S. has accused Nicaragua of attempting to export Marxist revolution through Central America with the support of Cuba and the Soviet Union.

For two years the U.S. has been supporting a rebel movement "the Contras," which has been seeking to overthrown the Nicaraguan Government.

After the disclosure of active participation by the Central Intelligence Agency (CIA) in the mining of Nicaraguan ports by the Contras, the Reagan Administration's policy in the region has been under intense fire and the House of Representatives has rejected Administration requests for a further $21m (£15m) to support covert activities against Nicaragua.

Mr Shultz's visit is seen here as partly designed to blunt criticism in Congress that the Administration is inflexible and unwilling to negotiate. The Administration is reportedly planning to pursue its requests for additional financial aid for covert activities against Nicaragua however.

Tim Coone adds from Managua: Sr Ortega said in an official communique, that the talks with Mr Shultz, "should not raise hope that the U.S. will respect the sovereign rights of Nicaragua." He said the U.S. position needed to be accompanied by "concrete acts" such as the cessation of military aid to Rightist guerrillas, an end to the mining of Nicaraguan ports, and the lifting of economic sanctions.

Just a few hours before Mr Shultz's visit, over 1,000 Contras of the FDN attacked and entered a northern Nicaraguan town of Ocotal, the regional capital of the Nuevo Segovia department. It was the first time in the three year guerrilla war, that the SDN guerrillas have succeeded in entering a town of any economic or political importance in the country.

Jackson to visit Cuba

BY OUR WASHINGTON STAFF

THE Rev Jesse Jackson, the only black politician who has been seeking the Democratic Party's Presidential nomination this year, has been invited to visit Cuba by the President Fidel Castro. Mr Jackson has said that he will make the trip as soon as the details can be worked out.

The announcement is yet another example of the sort of bold initiatives which Mr Jackson has been taking during the Democratic primary campaign which have helped strengthen his role as a black leader and promise to give him considerable influence at the Democratic Party's convention in July. Last week, in another move which was seen in part as aimed at boosting his support among Hispanic voters in the U.S., Mr Jackson visited Mexico.

The news of Mr Jackson's planned visit comes on the eve of a crucial round of Democratic primary elections tomorrow which could finally determine whether former Vice President Walter Mondale, the front runner, or Senator Gary Hart, will emerge as the party's Presidential candidate in November.

Mr Mondale is running strongly in New Jersey and in California, the other key race, he is neck-and-neck with Senator Hart, according to the polls.

Anti-Nato protest draws 100,000

By Tom Burns in Madrid

ABOUT 100,000 people protested in Madrid yesterday, according to police estimates, against Nato membership and U.S. bases in Spain, in the biggest demonstration against the Socialist Government's pro-western defence policy.

The Prime Minister, Sr Felipe Gonzalez, said meanwhile that within the next six months his Government would decide whether to recommend continued membership of Nato or whether to recommend leaving it while maintaining a bilateral defence treaty with the United States.

His statement reaffirmed that the Government had ruled out the neutralist option and that Spain would continue to play a role in western defence. The statement came after a meeting of the Socialist Party's policy-making federal committee.

Sr Gonzalez said that the long-awaited government decision on staging a major referendum, which was a key ingredient in the Socialist Party's election campaign, would be taken before the party's next congress which is scheduled for December.

The Government is reported to be evenly divided between anti- and pro-Nato camps with the supporters of the Atlantic Alliance arguing that it is unrealistic that Spain should be simultaneously planning to withdraw from Nato and negotiating to join the EEC.

The four American bases in Spain, technically joint U.S.-Spain bases, date from a friendship and co-operation agreement signed in 1953 by President Eisenhower's Administration with General Franco. Spain joined Nato in May 1982 under a previous centre party government and the Socialists froze Spain's relations with the alliance's military command structure when they came to office at the end of that year.

The Socialist Party refused to endorse the Madrid demonstration but it was backed by the party's youth wing and by the socialist trade union, the UGT. A statement read out at the end of the march called for an immediate, clearly worded and binding referendum on Nato membership for the dismantling of the U.S. bases.

Bonn to insist on lower interest rates

BY RUPERT CORNWELL IN BONN

WEST GERMANY is against the idea of a blanket remedy to the world debt problem even though the Bonn Government is convinced that containment of the crisis is vital to a continuing world economic recovery.

Instead, Chancellor Helmut Kohl and Herr Gerhard Stoltenberg, the Finance Minister, will insist on one essential general precondition at this week's London summit, that world interest rates must come down. Beyond that the circumstances of debtor countries vary so much that they must, as in the past, be dealt with individually.

The West Germans accept realistically that the summit, and even the special sessions of the finance ministers, will probably achieve little more than agreeing on the broad direction of further work on the debt issue within the International Monetary Fund and elsewhere.

"No miracle panacea exists," Herr Hans Tietmeyer, State Secretary at the Finance Ministry here, said. "The important thing is that everyone realises that the problems and solutions are interlinked."

That use of the word "everyone" of course is directed primarily at the U.S. Herr Stoltenberg shares the view—though perhaps he will press it less rudely than some of Washington's other partners—that the runaway Federal deficit is the main reason why American interest rates, and therefore most other people's, are much higher than they need be.

Bonn continues to see some justification for tight monetary policies, in so far as some countries have not yet sufficiently squeezed inflationary expectations out of the system.

But the latest rise in U.S. interest rates has brought the budget deficit question and the risk of debt defaults back to the boil. Will this goad the Reagan Administration into belated action?

"We're not sure," Herr Tietmeyer said. "We hope that Congress will be quick about deciding the 'down-payment' to contain the deficit. That would be a signal that they take the question seriously."

But West Germany will maintain at the summit that the IMF should be the "catalyser" for the internal policy adjustments required in debtor countries. Only when the fund has decided, and adjustment programmes have been negotiated, should rescheduling take place. This would be a matter for both lender banks and the "Paris club" of creditor nations.

On other points, Bonn tends towards the more "liberalist" approach of London and Washington. It is sceptical of the merits of creating extra liquidity, for example by a new allocation of SDRs. The West German Government wants closer cooperation with the World Bank but not at the price of turning the latter into an institution financing current account deficits. "It should stay project-oriented," Herr Tietmeyer said.

Herr Stoltenberg is likely to be agnostic on the various specific formulae being canvassed: "capping" of interest rates payable by debtor countries, longer-term rescheduling of their borrowing, and so on.

As far as the Bonn delegation is concerned, these are matters for private banks, not governments. Any recommendations from the summit to private banks could merely drag the industrial nations directly into the fray. Even so however, West Germany will be keen to study means of extending the scope of the Paris club.

On trade, another key area if the summit is to achieve its basic goal of "strengthening the chances of sustainable and general recovery," West Germany tends towards the Anglo-Saxon camp.

"Everyone will agree on the need to reduce protectionism and implement the Tokyo Round," according to Herr Tietmeyer. But differences may well surface between those like West Germany, and above all the U.S. and Japan, in favour of a new GATT round, and nations, including France and Italy, which are more reluctant.

The second school claims that the developing countries are not interested in the idea. But Bonn suspects that a truer reason is the desire not to come under even greater pressure in the high technology field.

As for the Japanese it is noted here with some amusement that yet again, on the eve of a gathering where its policies might have come under attack, Tokyo has come up with a timely liberalisation package.

The London gathering will receive an interim report on technology co-operation, set in motion at the Versailles summit of 1982. But West Germany does not expect any decision from the summit on whether to accept the U.S. invitation to take part in its manned space station programme. This is likely only later in the year.

Herr Kohl will bring up one issue particularly close to the West German heart — that of environmental pollution. The Americans however are said to be reluctant, while even in Bonn, many feel that the issue is best tackled at a European level and bringing in Eastern Europe as well.

Debt manageable Volcker says

PRINCETOWN, New Jersey—The world debt problem has been blown out of proportion and has caused exaggerated concern about the health of many U.S. banks, Mr Paul Volcker, the Federal Reserve chairman said at the weekend.

There are problems with some debtor nations but the overall situation is manageable, he said, speaking at Princeton University.

"I do not think it is possible to apply an across-the-board cure," he said, adding that each debtor country needed individual attention. U.S. banks are seeing improvement in capital positions that had previously eroded significantly, he noted.

U.S. banks could not be expected to take losses on loans to debtor nations, nor could the public fund Third World debt, he said.

Reuter

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Invasion of Lebanon costs $900m

BY DAVID LENNON IN TEL AVIV

ISRAEL'S OCCUPATION of Lebanon has cost the country $900m (£650m) in the past two fiscal years, according to the annual report of the Bank of Israel, the central bank. The occupation has increased local defence spending by 7 per cent annually for the past two years and Israel's continued presence there is a burden on the economy, the report says.

The invasion and occupation of Lebanon plus mistaken policies by the Treasury in the past two years were the main causes of the country's poor economic state according to the bank.

The report states that without a reduction in the level of defence spending, the economy's current problems will not be overcome. Defence spending of some $5bn a year, 20 per cent of GNP, is more than the economy can bear, the central bank states.

The report paints a grim picture of an economy beset with hyper-inflation and a lack of public confidence in the Government's handling of the situation.

Money being printed by the Government to cover its deficits is being used by the public to buy foreign currency instead of being invested in Government bonds or saving schemes. During the last quarter of 1983, the public purchased some $700m using the money injected into the economy by the Government. The report shows that, by the end of 1983, the public held $12.6bn in foreign currency linked assets. This amounts to 27 per cent of its financial wealth compared to only 11 per cent four years ago, while foreign currency assets the year before.

The report is also highly critical of the Government's failure to tackle inflation, now running at 400 per cent on an annual basis.

PM seeks closure of Israeli office

BY OUR TEL AVIV CORRESPONDENT

ISRAEL will only consider closing its quasi-diplomatic liaison office near Beirut, if it receives an official request to do so from the Lebanese Government, a Foreign Ministry spokesman said yesterday, in response to reports that Mr Rashid Karameh, the Lebanese Prime Minister, had asked that the office be shut down.

Mr Karameh was quoted by Lebanese State Radio as telling a dinner in Beirut on Saturday that he had asked Israel to close the office which was set up after the invasion two years ago.

Israel is resisting pressure to shut the legation because it is the last tangible vestige of the grand plan for close ties with the Lebanese Government which had been one of the main aims of the campaign in 1982.

The Syrians have long been urging Beirut to shut the office, and Mr Karameh said that it had lost its legitimacy when the Lebanese Government abrogated the troop withdrawal agreement signed with Israel in May last year.

Mr Uri Lubrani, the Israeli co-ordinator for Lebanese affairs, told the Israeli Cabinet yesterday that demands to close the office had been made during informal talks with Lebanese officials. But he said that no formal request had been received.

Reuter adds from Beirut: About 3,000 demonstrators chanting anti-Israeli and anti-American slogans marched through mainly-Moslem West Beirut yesterday at the start of a week of protests to demand Israel's withdrawal from South Lebanon.

W. German strike talks to resume

By James Buchan in Bonn

EMPLOYERS AND trade union representatives in the strike-bound West German engineering industry will go back into talks tomorrow in an effort to resolve their dispute over the working week.

As the strike enters its fourth week, employers announced yesterday that they would sit down tomorrow with local officials of IG Metall, the engineering workers' union, in Stuttgart and pick up a dialogue broken off last Tuesday.

The State Labour Court in Frankfurt convenes today to rule on an appeal by employers in the state of Hesse against the decision of a lower court last week to issue an injunction against lock-outs.

Although the strikes, and retaliatory lock-outs, have so far been limited to the Stuttgart and Frankfurt areas, shortages of important components have all but crippled the West German motor industry and forced companies to lay off an additional 200,000 workers.

Both sides kept up their war of words at the weekend in which they were richly aided by politicians of the main parties. However, there is modest confidence that the Stuttgart employers' offer last Tuesday of a two-hour cut in the basic week for shift workers offers the first piece of firm ground on which a settlement can be built.

Patrick Blum adds from Vienna: General Motors Austria will today lay off 1,300 workers, more than half its workforce of 2,400, as a direct result of the wave of strikes and lock-outs in West Germany.

The GM plant near Vienna produces 1.2 litre and 1.3 litre engines and transmission boxes for export to other GM and Opel plants. About 40 per cent of its production goes to Spain, 40 per cent to Belgium and the remaining 20 per cent to West Germany.

Anti-EEC vote expected in Denmark

By Hilary Barnes in Copenhagen

OPPONENTS of Denmark's EEC membership will win 38 per cent of the votes in the election to the European Parliament on June 14, about 5 per cent more than they polled in the 1979 election, according to an opinion poll published in Politiken, a Copenhagen newspaper, at the weekend.

The vote for the pro-EEC parties is threatened by the indifference of their supporters. While 81 per cent of those who are against Danish membership say they planned to vote, only 63 per cent of the total sample said they would vote. This indicates, however, that the turnout could be rather better this time than the 47 per cent who voted in 1979.

The opposition Social Democratic Party, led by former Prime Minister Anker Jorgensen, will suffer especially in the election. The party will poll only 15 per cent of the votes, or less than half the vote it received in the January general election in Denmark, according to the opinion poll.

About a third of those who normally vote Social Democrat are set to give their vote to anti-EEC parties.

The non-Socialist coalition government parties (Conservatives, Liberals, Centre Democrats and Christians) would win 42 per cent of the vote and other non-socialist parties 5 per cent, the poll said.

Marcos says IMF agreement is near

BY EMILIO TAGAZA

PRESIDENT FERDINAND Marcos of the Philippines said over the weekend he hopes that negotiations with the International Monetary Fund (IMF) for an SDR 615m ($591.3m) standby credit, under discussion for almost nine months, will be finished by the middle of this month.

Mr Marcos said that the Government must still solve a few difficulties before the IMF approves the credit, including the mopping up of liquidity caused by excessive government borrowing from the central bank last April.

At the same press conference, Mr Cesar Virata, the Prime Minister and Finance Minister, said government borrowing from the central bank last April reached 5bn pesos ($357m), which the Government must now reduce to 3bn pesos. Mr Virata said that as of end-May, the figure has been reduced to 3.3bn pesos.

Mr Marcos denied speculations that the Government overdrafts from the central bank were used by his ruling political party for the May parliamentary election campaign.

He said extra funds were borrowed to bridge the shortfall in government revenues caused by the drop in import tax collection. When the foreign exchange crisis hit the country last year, imports correspondingly dropped.

Sr Ferdinand Marcos

Unable to categorically deny reports of a forthcoming devaluation, which the IMF is said to be insisting on as a condition for its credit, the president said: "There is no way of projecting a devaluation figure right now while we cannot control the money supply as well as the dollar rate and the inflation rate."

For the first time since the discovery of an overstatement in the country's international reserves last year, President Marcos and Mr Virata admitted it was a case of "window dressing" done through a series of transactions that transferred funds from the state-run Philippine National Bank to the central bank and back.

The process had resulted in double counting, pushing up the reserves. The country's foreign reserves were overstated by at least $600m late last year, causing a major delay in the IMF credit.

Austria minister likely to resign

By Patrick Blum in Vienna

THE AUSTRIAN Finance Minister, Herr Herbert Salcher, is expected to quit the Government following a dispute with Chancellor Fred Sinowatz over tax reform.

The disagreement is the most overt expression to date of a deeper malaise within the Socialist Party, the dominant partner in the coalition with the Liberals, over the Government's performance since it took office a year ago.

Privately Herr Salcher says he will feel compelled to resign shortly unless he can proceed with the tax reform which his ministry has been preparing for several months.

Chancellor Sinowatz surprised his party and Government colleagues last week by publicly disowning the reform and rejecting the introduction of several new taxes.

Herr Salcher who was neither consulted nor warned about the Chancellor's statement, says it leaves him with his authority weakened and next to nothing left to reform.

Worries cloud bankers' gathering

BY DAVID LASCELLES IN PHILADELPHIA

LEADING central bankers and the chairmen of the world's largest banks gathered here last night for a glittering three-day conference that is supposed to mix business with pleasure.

But with the Third World debt crisis worsening and a good number of the participants' own banks under pressure, the gala dinners and champagne receptions will be occasions for more business and less pleasure than planned.

The International Monetary Conference, organised each year by the American Bankers Association, is the world premier banking event.

Incongruous as the lavish programme may seem at a time when the banking system seems perilously fragile, the show must go on. Working sessions will be interspersed with receptions, banquets, and an evening at the estate of the du Pont family.

The list of speakers reads like a dream: Paul Volcker, Robin Leigh-Pemberton, Karl Otto Poehl, Fritz Leutwiler, Helmut Schmidt, Jacques de Larosiere, Lord Richardson, Walter Wriston, Lewis Preston, Wilfried Guth, Sam Armacost, James Robinson, Michael Sandberg, Pehr Gyllenhammar, Lord Barber: if you have to ask who they are you clearly do not belong.

But the real business will go on in huddles in corridors, at little tables behind ferns, in upstairs rooms, late into the night.

The presence of central bank governors from the U.S., the UK, West Germany, Switzerland and Japan is bound to trigger speculation about initiatives to restore order in world banking. But officials are going out of their way to dampen hopes.

The venue may not be altogether auspicious; the Bellevue Stratford Hotel was the scene of a fatal outbreak of Legionnaire's Disease five years ago, since when it has changed hands twice. But if the City of Brotherly Love was ever conducive to peace and harmony, 150 men with great weights on their minds will be hoping it lives up to its name.

Fiji Islands Steamship Corporation

With reference to the report "Higher shipping costs hit Iran's oil earnings" on page 5 of the June 1 edition of the Financial Times, Mr Martis Cullenodis wishes it to be known that he has no connection, nor ever has done, with the Fiji Islands Steamship Corporation.

BADEN-BADEN: RHETORIC AND CIRCUS FAIL TO GENERATE CAMPAIGN EXCITEMENT

Europe takes second place to local concerns

THE BLACK FOREST spa town of Baden-Baden is one of those European places which, through a combination of history and geography, was largely Europeanised long before there was any idea of a Common Market or European elections.

Being only five miles from the Rhine and about 30 north of Strasbourg, it is at the heart of the territory which the French and Germans have argued over through the centuries.

The soldiers of Louis XIV destroyed the city by fire during the Palatine Succession War and as recently as 1945 the town was the seat of the French zone of occupation, the confiscated hotels and restaurants being returned in 1950.

Between times, the spa had claimed for itself the title of Summer Capital of Europe with the local mineral waters, spa treatments, and beautiful wooded countryside combining with the ottractions of the racecourse and casino to attract the wealthy, peripatetic aristocracy in their droves.

Today this combination, heavily promoted in an overtly up-market style, continues to attract visitors to the town, although its financial lynchpin is now the casino (closed to local residents) whose guests still come from throughout Europe, their numbers now swelled by Americans and Arabs. Profits at the gaming tables run at DM 60m (£16m) a year.

But despite this long-standing internotional flavour, local residents show little interest in the European Parliament or the forthcoming elections.

This is not an apathy peculiar to Baden-Baden. It affects mnch of West Germany and, judging from earlier reports in this series, much of Europe. The political parties are therefore doing everything possible to enliven proceedings.

The Free Democrats (Liberals) have a campaign train on a whistle stop tour to back up their steam-train logo with the slogan "Dampt fuer Europa" (Steam for Europe).

The Christian Democrats have a "Europaship," the "Carmen Silvia" paddle steamer, cruising the Rhine to ports of call at which the public can meet MEPs and candidates, see videos about Europe and pick up literature.

None of this was anywhere as entertaining as the crash of the "Carmen Silvia" into the river bank in Baden-Wuerttemberg, with cold water flooding in as the passengers were rescned.

"Too mnch from the European wine lake for lunch," said one bemused bystander. "They should have fallen in and seen how little any Parliament has done to clean up the Rhine," said a stout and elderly lady (somewhat inaccurately as it happens as both the German and European Parliaments have made substantial progress in environmental issues).

The other parties have made less colourful splashes but equally determined efforts to rouse the European consciousness at national, state and town level.

Frau Katharino Focke, long o leading Social Democrat light in the national and European Parliaments, told delegates to the SDP congress that Euro-apathy was their fault and they must get out and "inspire" the voters.

The Green party, already represented in some state parliments and Bonn is now hunting European seats and devoted a party political broadcast to "freeing women" throughout Europe.

Rhetoric and circus bave so far failed to hring any of this to life in Baden-Baden where dutiful voting on traditional party lines in a staunch CDU beartland will mask the fact that the townspeople are, in fact, very much more interested in their local elections, due in the autumn.

It is then that matters of real concern can be aired—the catastrophic traffic ituation resulting from 200,000 guests a year, nearly all in cars, in a town of 50,000 where many families bave two cars. And the slowly changing face of the town—there is now a department store, a sex shop and a McDonalds.

The problem of getting these Europeans to think European was highlighted at an FDP meeting addressed by Herr Ulrich Irmer, an MEP. Fewer than 30 people turned out, mainly committed party members.

He bad been asked to speak about the North-South dialogue and European aid to the Third World. But he devoted most of the meeting to an attack on the British position in the EEC budget dispute which amused his audience greatly but was no help in persuading Baden-Baden to vote.

But at the end, Herr Irmer hit a ebord and, perhaps unwittingly, made a deeply European point. He talked about borders within the EEC. In one sense, he noted, West Germans had to travel to East Germany or Berlin to appreciate real borders. Passage to France, in the EEC, or Austria, outside, is fairly quick and easy.

Indeed, moving from Baden-Baden to France involves a quick drive over a Rhine bridge and an informal wave straight through the border.

Nevertheless, this annoys the local people. Some people from Baden-Baden work in France; some live in France and travel back to Baden-Baden daily to work. The very existence of the border posts irritates, especially as there are occasional passport checks.

Borders should be abolished within the EEC, said Herr Irmer. "Europe will not mean anything to many people until that bappens througbout the Community," he said.

And to underline the point, the slogan of the FDP election address is headed: What Cbildren Want from Europe; followed by a child's answer: "The whole of Europe sbould be one land where there are no borders."

Robin Pauley

COTSWOLDS : CURRENT OF ANGER BENEATH THE PLACID SURFACE

Tory farmers threaten revenge at the polls for dairy quota cuts

HENRY JAMES described the Cotswolds as "the core and centre of the English world—midmost England, unmitigated England." Appropriately they have been represented in Europe by the bluff, very English figure of Sir Henry Plumb, leoder of the British Tory group in the Assembly and former president of the National Farmers Union.

The placid surface is deceptive. The question of the recent EEC dairy farmers' settlement which has infuriated mucb of the local farming community is a big election problem for Sir Henry. Some normally loyal Tory farmers are not only threatening to obstain. They are saying that they will vote for the dreaded Liberal-SDP Alliance as a protest at the reduction in milk quotas.

This is not a threat to be taken lightly. Although the Liberal candidate came third behind Labour at the previous European election, the Alliance did remarkably well in coming second in last year's general election in all but one of the seven parliamentary seats within the constituancy.

The Tories held all seven Westminster seats and Labour came second in Gloucester. But in the other six — Witney, Stroud, Cirencester and Tewkesbury, Stratford on Avon, Banbury, Cheltenham—the Alliance was second with a vote varying between 27 and 41 per cent of the total.

The seriousness with which the threat is taken was apparent last week wben Mrs Margaret Thatcher doggedly tramped through the muck at the Banbury cattle market dealing with bitter complaints from irate local dairy farmers.

To be fair tu Maggie and Sir Henry Plumb, who accompanied her, they did not back away from the problem. The Prime Minister declared forthrightly that dairy overproduction had become so great that it just had to be tackled—"You know it and I know it."

Naturally, the Alliance candidate, Miss Muriel Burton, who stood at the last Euro-election in the constituency, and the Labour contender, Mrs Janet Royall, are making the most of the disaffection among the farmers.

The Tory line is to emphasise that the Government is doing all it can to ease the transition to lower milk production. This is backed up with dire borror stories of how the other parties would treat the farmers if they were elected.

Nevertheless, conversations with farmers indicate that some of them are determined at the very least to abstain instead of voting Conservative. In the Conservative office at Cheltenham is a protest placerd left behind after a recent farmers' demonstration. It states: "Sorry, Henry, no vote here."

Still, the task of toppling Sir Henry is formidable. A recent straw poll taken by the Conservatives of 76 shoppers in Cirencester and Tewkesbury showed that 83 per cent could name him as their MEP. Although such a poll cannot claim great accuracy, the percentage indicates the high profile Sir Henry maintains on TV and in the Press.

It also showed that most people (49 per cent) thought the agricultural question was the main local issue in the election with jobs running a poor second. Some 85 per cent are said to have thought the Community "a good thing." This is difficult to reconcile with the fact that at the last European election in the constituency. Air Vice Marshal Bennett stood as the "Britain Out" candidate and received 11,422 votes, 6.14 per cent of the total.

The other intriguing issue has been the Government'a decision to abolish trade unions at the top security government communications headquarters on the outskirts of Cheltenham. The question is whether this has created enough resentment among the 7,000 or so employees to affect the size of the Conservative vote.

The civil service union at the headquarters has written to the candidates asking each one for a pledge of support for reinstatement of the unions at the headquarters.

The Alliance and Labour bave answered with an emphatic "yes." Sir Henry, however, is diplomatically replying that it is not an issue for the European Assembly. But be is prepared to steer the unions in the right direction if they wish to take the case to the European Court.

For the Alliance Miss Burton (49), a Liberal and an organiser for the Workers Educational Association, takes a strong pro-EEC line and is calling for greater powers for the Assembly. On the one hand, she attacks Mrs Thatcher's "stridency" and on the other criticises Labour's "negative attitude" to the Community.

Mrs Royall (28), an organiser for Labour at the Assembly, argues that ber party has the most coberent policy. She takes the Kinnock line that Britain is in the EEC for the next four years at least and must do all it can to move towards "more sensible" policies.

Despite appearances, commerce and industry are by far the largest employers in the constituency, with tourism also accounting for an increasing number of jobs. Several local companies bave received EEC grants, including the Coal Board researcb station at Cheltenham and BL components, wbich employs people who work in the Witney area. Gloucester wants Community money for its new docks, and there is likely to be o similar demand sbould a second Severn Bridge project come to fruition.

Meanwhile, the folk of Cheltenham are keeping their feet firmly on the ground. In one teashop last week two women were having o forceful argument ogainst the bockground music of Vivaldi's "Four Seasons." The faults of the CAP? The budget row? Not at all. The subject of contention was the rival merits of Darjeeling and Earl Grey tea.

John Hunt

Opposition parties aim to raise UK tempo

By Peter Riddell, Political Editor

LEADERS OF Britain's Labour Party and Social Democrat/Liberal Alliance will this morning attempt to raise the tempo of the campaign by presenting their proposals for what should happen at this week's London economic summit.

Both parties will advocate o programme of concerted reflation, together with government action to expand significantly the resources of the World Bank and International Monetary Fund.

Opposition party strategists are worried about the lack of interest in the election shown by both television news and the mass-circulation newspapers. They are concerned that Mrs Margaret Thatcher will be able to dominate the headlines for the next week as a result of the D-Day anniversary celebrations and the summit.

There is apprehension in the Conservative camp about reports of hostility among dairy farmers to the recent EEC agriculture deal. There appears to be a contrast in the level of activity between rural and inner city areas.

Interviewed on London Weekend Television's Weekend World programme, Mr Denis Healey, the Shadow Foreign Secretary, took a pessimistic view of international debt and banking problems. He said that banks were in urgent need of help and warned that a catastrophe might have to come first, leading to costs far greater than today.

He urged a combination of greater support for the World Bank and the IMF, more effective control of bank lending and a change in the monetarist policies which had helped produce the problems.

At the Alliance news conference this morning, Dr David Owen, the SDP leader, is expected to discuss the summit issues on the basis of the Trilateral Commission report, "Democracy Must Work," of which he was the co-author along with Mr Zbigniew Brzezinski of the U.S. and Mr Saburo Okita of Japan. Dr Owen is depressed about the chances for any significant advance at the summit and partly blames lack of EEC consultation

Barre gains by keeping out of the fray

By Paul Betts in Paris

A PERVERSE trend appears to be developing in France. As long as a major politician keeps out of the European election campaign bis popularity improves in public opinion polls.

This increasingly seems to be the case for M Raymond Barre, the former prime minister and a potential presidential front runner in 1988. His popularity has risen steadily since the campaign began.

Unlike the other main right-wing opposition leaders, he has decided to ignore the campaign. But he drew a far larger crowd at a rally in Valence last week than did Mme Simone Veil, the former president of the European Parliament heading the opposition list in France, or M Jacques Chirac, the Mayor of Paris and leader of the neo-Gaullist RPR opposition party, at rallies in other parts of the country.

M Barre has been out of the headlines for a few months. But in the latest opinion poll, he emerged as the most popular man in the opposition with 47 per cent, displacing Mme Veil with 46 per cent. Former President Valery Giscard d'Estaing follows with 41 per cent and M Chirac trails at 38 per cent.

Political observers suggest M Barre's comeback reflects the fact that, by keeping out of the election campaign, he has been immune to all the traditional campaign controversies that undermine o politician's image.

M Barre, who appears to be working towards a slow but steady build-up to the next presidential elections, made a frank assessment yesterday of the European vote.

"One should not give these elections too much importance from a domestic political dimension."

If M Barre is climbing the opinion poll ladders in France, the Left is also enjoying a tentative recovery. After hitting an all-time low for a President of the Fifth Republic, M Francois Mitterrand now has 33 per cent of the population satisfied with his administration—a gain of three points in the latest polls. His Prime Minister, M Pierre Mauroy, has also gained two points to 27 per cent.

WORLD TRADE NEWS

U.S. launches campaign to curb offset deals

BY NANCY DUNNE IN WASHINGTON

THE Reagan Administration has launched a campaign against the controversial but widespread government practice of demanding offset deals in return for major contracts. It is believed that the U.S. is asking other governments to collaborate in curbing such arrangements.

Mr Charles Blum, acting assistant U.S. Trade Representative, criticised the practice last week, and said: "Any effective solution must evolve in co-operation with other nations and in co-ordination with affected U.S. industries."

Offset deals involve shared manufacturing by foreign countries or other arrangements aimed at "offsetting" part of the cost of a purchase. While the Reagan Administration approves such transactions between private companies, it opposes any procurement or technology transfer contracts which result from a foreign government's insistence on offset as a condition for concluding a deal.

"It is injurious to the economic and trade interests of supplying countries for offsets to become so excessive that purchasing countries conduct an auction for offset bids or demand ever increasing amounts of offset," Mr Blum said.

American officials refuse to confirm that any international initiative is under way. But according to the usually reliable Washington newsletter "Insida Trade," the Administration has asked its Bonn, London and Paris embassies to seek agreement discreetly between high technology exporters to resist demands from countries for offsetting arrangements.

Mr Brock . . . "all or nothing" approach unrealistic

If agreement is reached there, the newsletter says, the U.S. expects to take the issue to tho Organisation for Economic Co-operation end Developmeot, where it is already pressing for an end to mixed-credit export financing.

According to the report, the Penatagon is heavily involved in the effort to achieve agreement against offsets since many of these deals involve arms sales.

The Defence Policy Advisory Committee, a group of top chief executives in the defence industry, bas recommended that the U.S. Government, through the U.S. Trade Representative's office, "promote the negotiation of multinational agreements to eliminate or set limits on the level of offsets that are acceptable in an international procurement with the participation and concurrence of the industries involved."

Offsets, the committee said, in a report to Mr William Brock the U.S. Trade Representative, and Mr Caspar Weinberger, Defence Secretary, "simply add to the problems of U.S. overcapacity in some industrial segments."

However, the committee said, they are "an economic reality."

"Foreign governments will continue to press for co-operative efforts on arms programmes and U.S. refusal could lead to independent actioo with the eventual results reducing U.S. industry participation in foreign weapons sales and an adverse effect on our economy and foreign relations," tha committee said.

It concluded that an "all or nothing" policy towards offset arrangements is "unrealistic and could be counterproductive."

In the past, most offsets were requested by industrialised countries. Now, however, developing countries, are seeking such arrangements

SHIPPING REPORT

Gulf tanker chartering picks up

BY ANDREW FISHER

SHIPOWNERS became less reluctant to take on new business in the Gulf last week. But the attack yesterday on a Turkish tanker could well weaken the resolve of some who might have been ready to resumo taking on oil cargoes.

Tanker freight rates have shot up since the latest attacks on merchant shipping. Chartering activity was much livelier after the previous week's nervous lull.

This prompted Galbraith's, a leading London shipbroker, to state that the stalemate in the market between charterers and owners had been broken. There was no lack of tankers last week willing to load at Kuwait, Saudi Arabia or Iran's Kharg Island.

Rates have doubled since the spring in the Gulf. Exxon, the big U.S. oil group, chartered a tanker for 225,000 tons of oil from Saudi Arabia to the Far East at Worldscale 50. For similar cargoes from Kharg to Europe, around Worldscale 67.5 would be payable.

Tha Singapore voyage would cost nearly $1.2m in freight charges. To go from Kharg to Europe with a 250,000 ton cargo would cost nearly $4m. Hull insurance, lately more than doubled to 7.5 per cent in the war zone, would cost $750,000, if a shop was insured for $10m. From the Saudi port of Ras Tanura, a 250,000 ton cargo to Europe could obtain over Worldscale 60, or nearly $3.5m.

It is not just the VLCCs of more than 200,000 dwt which have been able to command higher rates. Smaller ships have also benefited.

Manitoba plans more hydro sales to Mid-West

By Bernard Simon in Toronto

TWO HYDRO-ELECTRIC projects costing a total of C$6.5bn (£3.63bn) are planned for the northern part of the Canadian province of Manitoba to fulfil tentative agreements for electricity exports to the U.S. mid-west.

Mr Wilson Parasiuk, Manitoba's Minister of Energy and Mines, said that the province has signed a letter of intent with Western Area Power Administration (WAPA) of Golden Colorado for the export of 1,200 MW of electricity a year for 35 years starting in 1993/94. WAPA sells power to 500 customers in 15 states, including municipalities and utilities.

Last month, the Manitoba Government signed a similar 12-year agreement with Northern State Power of Minneapolis for the expert of 500 MW a year from May 1993. A firm contract is expected to be signed later this month.

The facilities to supply power for these contracts to be known as the Limestone and Conawapa generating stations, are planned for the lower reaches of the Nelson river, which flows through northern and central Manitoba into Hudson Bay.

Manitoba is the most easterly of Canada's prairie provinces, and sells sizeable quantities of hydro-electricity to the U.S., as well as the neighbouring provinces

Honda plant in Canada

By Bernard Simon in Toronto

HONDA MOTOR Company of Japan will announce today a large investment in the Canadian motor industry. Honda leads sales of imported cars in Canada, totalling 47,800 units last year.

The company's plans are understood to involve a C$100m (£56m) plant to assemble its Accord and Civic models. The plant, due to be commissioned in 1987, is expected to have a capacity of about 40,000 vehicles a year and to be built at Alliston, a farming town 50 miles north of Toronto.

WORLD TRADE NEWS

Colina MacDougall on another sign of China's internationalism

Patent law poses policing problems

"PEKING'S new patent law will be important to companies just getting their feet wet in China trade," said an official of the Washington-based National Council for U.S.-China Trade. "Where technology was protected by contract, I never heard of a case where it leaked, and the old hands know a good contract is crucial. But the law will give newcomers confidence."

The patent law, adopted last March, comes into force next April 1. Under its provisions, *inventors*, both Chinese *and* foreign, will be able to pateot their inventions for a fixed period (15 years for inventions, less for other types of creative work sueh as designs). Once a patent is granted, no-one may make or use the prodncts or process without obtaining a licence and paying a fee.

Hitherto foreign manufacturers selling to a Chinese enterprise have written safeguards into the contract to prevent copying by other organisations.

This has made the contracts more complex and bas not prevented other forms of leakage —for instance the appearance of the Chinese Yun-10 aircraft, remarkably like the Boeing 707. (Boeing bad sold 707a to China but did not have a technology transfer contract so there was no infringements.

How effective will the oew law be? The short answer is probably that China intends to protect the processes and equipment invented by foreigners, but that policing may prove difficult. Chine's spread of technical and legal skills is still low, and, though education is booming, chemists, engineers and lawyers are at a premium.

Legal experts say the law is good and bears strong resemblances to the European Patent Convention. Under it, foreigners may obtain patents in China provided they are nationals of countries with which China has treaty or reciprocal relations in the field of patents.

China has patent agreements with few countries apart from the U.S., but it is confidently expected to accede to the Paris Coovention, the multilateral treaty on which tha world'e patent system is built, before next April.

Most major countries, and eveo Albania. bave a patent law. "It's politically respectable," said one lawyer. Furthmore, it does generate funds The China Council for the Promotion of International Trade (CCPIT) which is to act as patent agent, will earn hefty fees, both for the actual agency work and for translating the patent documents into Chinese.

Nearly 100 patent office etaff have been trained abroad, many in West Germany but also in Japan, the UK and tha U.S. One problem, commented a European patent official, was that they aeemed to be chosen for their language skills rather than technical ability. "Even in language," he eaid, "of the four we had, ona was excellent, two weren't bad but the fourth was abysmal."

Above all, a patent office must have an effective search system. In Shanghai and Peking (wbere the patent office is currently housed in a disused football stadium) many thousands of foreign documents are simply shelved in cardboard boxes.

For once, it's China's speed in setting up the new system, not the delays, that bother people. Even with the world's best expertise, the European Patent Office took ten years to establish; the Chinese office will open in six. "They say they've trained over 11,000 people in patent work," said one lawyer. "It's a bit like the 'barefoot doctor' programme."

The World Intellectual Property Organisation (WIPO), the Geneva-based UN specialised agency which administers the Paris Convention, has belped tha Chinese with training sessions in Geneva and seminars in Peking. A judges' course is on the stocks for August this year.

Tha Director General, Dr Arpad Bogsch, has visited China six times in the last four years. It is a useful achievement, says Dr Bogsch, to bave China, with its size, importance as a market and industrial potential, within the world patent system.

Enforcing the law, however, may be difficult. The law provides that complaints of infringement may be bandled *either* by the *administrative* authority for patent affairs (in the case of a foreigner, the CCPIT) or in the people's courts. Foreigners may not be completely satisfied with the CCPIT acting both as patent agent and as arbitrator. "It's too close for an outsider to feel entirely happy," said one lawyer.

To criticisms of the law—which ba says is "crystal clear"—Dr Bogsch replies that one should not prejudge its operation. "Concern is based on unjustified speculation," ba says, noting that where tha Chinese make agreements, they keep them.

"Of course there will be teething troubles," said another lawyer, "But the law'a an important sign of China's growing internationalism."

UK, China to discuss proposed HK airport

BY ANDREW FISHER IN LONDON

TALKS will take place in China this month on a proposed airport project just across Hong Kong's border which would cost several hundred million dollars and involve British participation.

A UK team, headed by British Airports International (BAI) – jointly owned by the British Airports Authority and International Aeradio – will visit China this month. Talks between the two countries have been going on for several months.

The exact cost of the airport at Shenzhen will depend on the size and location. Standard Chartered Bank has been chosen by BAI to provide financial advice and act as one of its partners in the project.

Also taking part in this month's talks will be the UK Civil Aviation Authority and consultancy companies Sir Alexander Gibb and Mannsell Partnership.

BAI has discussed the new airport with both the Civil Aviation Administration of China and the local authorities in Shenzhen.

It is proposed that the airport should be a regional rather than an international one.

BAI said it had now drawn up its formal proposals for the joint venture with the Chinese on the planning, design and financing of the airport, as well as supervision of its construction and its eventual operation.

Final agreement on the project could be reached by the end of the year. Talks only began last December. International Aeradio a joint owner of the BAI consultancy company, is itself owned by a number of major airlines.

UK strike increases coal competitiveness

BY MAURICE SAMUELSON

THE BRITISH coal strike is having the unexpected effect of improving coal's competitiveness against oil and gas in Europe.

This is the view among international coal traders in London as the three month old strike appears to be making faltering moves towards a settlement.

Its principal effect on the wider energy market has been the large-scale purchases of heavy fuel oil by the UK electricity industry to replace steam coal, which normally supplies 80 per cent of its fuel requirements.

Another unlikely aspect of the strike is that, in spite of all the anxiety of the National Coal Board about the effect on its sales, other coal producing countries are unlikely to secure long-term advantage from Britain's temporary withdrawal from the world coal market.

The Central Electricity Generating Board is believed to be burning about 350,000 tonnes of fuel oil a week. This represents about 25 per cent of the available heavy fuel oil in Europe.

As a result, the market has hardened and the present price, of $187 a tonne is believed by one leading energy analyst to be $20 higher than it would have been had the strike not broken out.

European gas prices are also higher than they would have been, because they are traditionally influenced by movements in prices of fuel oil.

This, too, could be to the advantage of coal when electricity utilities decide which fuel to burn in their power stations. Until recently, gas had been regarded as a "noble" fuel which was too precious to be used for power generation.

However, with gas surpluses rising, it is being considered for use in power stations in a number of European countries, including Denmark, the Netherlands and Italy.

But with the sudden widening in the price gap between gas and coal caused by the UK miners' strike, some of these utilities may be reviewing whether they should not after all use coal.

This is in spite of the fact that world coal prices have also been rising for the past six months, after remaining flat for more than a year. Traders attribute the increase less to the cut in British output than constraints on the major low cost producers and rising demand in large consuming countries.

These constraints explain why, despite the National Coal Board's widely publicised fears, it has not yet lost any major long term markets, either at home or abroad, to foreign producers.

Export orders for Polish coal, for example, are now back at the 44m tonnes ceiling they held before the Solidarity strike.

Escort tops production table for third year

BY JOHN GRIFFITHS IN LONDON

THE FORD Motor Company built 827,000 Escorts at nine plants worldwide last year, making the car the world's single biggest volume model for three consecutive years.

The manufacturing plant in Brazil contributed to Escort productioo for the first time last year, complementing output in the U.S., Canada, UK, West Germany, Spain, Portugal, and South Africa.

Ford's figures show that second place was taken by Renault's R9 model (*730,000 units*), third by Toyota's Corolla (705,000), fourth by the VW Golf (611,000) and fifth by the Nissan Sunny (556,000).

Ford's UK plant in Liverpool, UK contributed 120,000 units to the Escort's total output.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1975 = 100)

	Apr. '84	Mar. '84	Feb. '84	Apr. '83	% change over previous year
W. Germany	143.4	143.1	143.0	138.9	3.2
France	242.1	240.7	239.2	224.5	7.8
Italy	376.8	373.3	370.7	337.2	11.5
Netherlands	161.5	161.0	160.2	156.0	3.5
Belgium	181.1	179.9	179.1	168.4	7.5
UK	259.4	256.0	255.2	246.6	5.2
U.S.	191.5	190.6	190.2	183.3	4.5
Japan	153.4	153.0	152.6	149.9	2.3

Source: Eurostat

UK NEWS

Hopes for concession over ban on unions

By Our Labour Staff

SENIOR Trades Union Congress (TUC) officials believe the Government may yet be persuaded to make some concession on its action earlier this year to union organisation at Government Communications Headquarters (GCHQ) at Cheltenham, Gloucestershire.

They believe that the Government has been chastened by the unequivocal condemnation of its action by the International Labour Organisation (ILO) and that it is embarrassed at being seen in a major world forum to act dictatorially.

Optimists also detect a thaw in the Government's attitude towards the TUC and feel it may be seeking a rapprochement with the unions.

At a meeting with union leaders from Britain and abroad last Thursday, Mrs Margaret Thatcher, Prime Minister, several times praised Mr Len Murray, the retiring TUC general secretary – much to his surprise.

TUC officials believe a concession on GCHQ would strengthen "responsible" trade unionism in the light of the militant tactics being pursued by the mineworkers with the support of left-led unions.

However, this thinking contrasts sharply with official Government reaction to the ILO judgment, which found that Britain had contravened ILO Convention 87 on freedom of association.

Civil Service unions are due to proceed on June 19 with a High Court challenge to the GCHQ ban, and the two larger unions involved have both taken recent conference decisions not to offer again any no-strike deals of the kind put forward in earlier talks.

Labour Party plans talks on cash crisis

BY JOHN LLOYD

THE LABOUR Party and the trade unions affiliated to it are to hold talks on the future of the close links between them – probably on August 1 this year.

The meeting of leaders of both wings of the movement has been called by the party to address a serious cash crisis which faces Labour. This crisis could deepen still further when the Trade Union Bill becomes law this autumn.

One of the three major elements in the Bill is a clause which requires all unions with political funds to hold a ballot on their retention by March 1986. Since almost all of these funds help to finance the Labour Party – to the tune of £3.2m a year, the vast bulk of its income – the loss of some of these funds would be financially disastrous for the party.

Pessimistic estimates show that the results of political fund balloting could reduce union contributions by up to £2m a year. Polls taken by the Trade Unions for Labour Victory organisation show that at best 50 per cent of union members want the political funds to remain in existence and that the party has a large task ahead of it to persuade rank-and-file union members to vote to retain the link.

However, Mr John Smith, Labour's employment spokesman, and other senior union and party figures have now devised a strategy which, they believe, could cement the allegiance of most, if not all, of the major affiliates.

They will propose to the August meeting that unions hold a series of ballots on the political fund with the unions most likely to deliver large majorities balloting first to create a "locomotive" effect, and the weakest coming last.

Ironically, the strongest union in this context is thought to be the 380,000-strong Electrical and Plumbing Trades Union – a right-led union often frankly critical of the party leadership and policies.

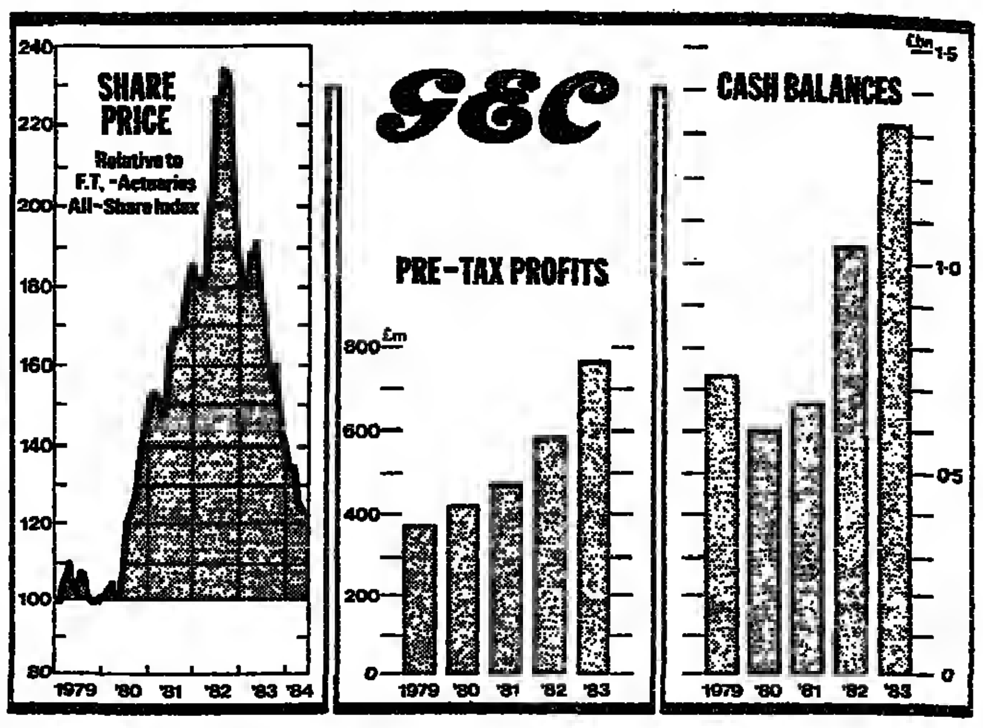
This is because it is held to have a loyalist Labour membership and to have an efficient officer corps, which can deliver the vote.

Mr Smith and his colleagues will stress the changes which they believe the Trade Union Bill will usher in to broaden the definition of purposes for which political funds must be used to cover campaigns which presently may be lawfully funded by the general fund.

They will tell unions that a political fund is essential for such campaigns as opposition to public spending cuts.

Mr Smith said yesterday that the Trade Union Bill's provision could have a "boomerang" effect if unions showed strong majorities for continuing their funds. "It will allow the unions to explain the point and purpose of the political link. It might be that far more members of unions will become members of the Labour Party."

In his speech to the opening session of the annual conference of the General Municipal and Boilermakers' Union – of which he is a sponsored MP – Mr Smith said it was important for the Labour Party to go out to the electorate and to put together policies over the next two years which could command support.



Giant weapons and aerospace group on the drawing board

Michael Donne examines the possibilities of a merger between British Aerospace and the General Electric Company which would result in a defence production and satellite manufacturing group to rival the major U.S. companies in those fields.

A COMBINATION of British Aerospace and the General Electric Company, if achieved, would create one of the biggest single contractors in the world in two broad areas – satellites and defence production – rivalling the major U.S. companies in those fields.

GEC announced on Friday that it was discussing a possible bid for BAe, the aircraft and weapons manufacturer. Such a move would bring about one of the biggest takeover battles in UK history. BAe is already holding merger talks with Thorn EMI, the electronics group.

In general, however, the activities of GEC and BAe are end manufacture of civil and military aircraft, guided weapons and spacecraft.

BAe provides part of its own additional requirements for equipment and components but it is also an extensive purchaser from GEC of a range of electronic and other aerospace components of varying size and complexity.

As a result, there is already a close relationship between the two groups, which would be considerably strengthened by a merger. Competition between them is comparatively limited – for example, in the gyroscope field and in the membership of some big satellite manufacturing consortia.

Out of BAe's total turnover of just over £2.3bn in 1983 more than £1bn was accounted for by military aircraft and associated activities, while more than £892m was accounted for by guided weapons systems and £143m by space activities of all kinds. The rest, about £434m, was for civil aircraft.

The preliminary results for the GEC group for the six months to the end of September last year showed that of turnover of nearly £2.7bn at home and overseas the Electronic Systems and Components business accounted for £715m, while the Telecommunications and Business Systems activities accounted for £350m, a total of more than £1bn.

It is primarily the Electronic Systems and Components group that is the contributor to the defence and satellite programmes, with particularly heavy involvement by the companies in the Marconi Systems Group.

GEC is involved in one way or another in every major defence project in the UK for all three armed forces, as well as in a number of multinational projects with European and U.S. partners. In addition to direct contributions to aircraft, missile and spacecraft ventures, its expertise is also applied on other aviation areas, such as radar.

For military aircraft, the GEC products range from pilots' "head-up displays" to flight controls – including the rapidly emerging new development of "fly-by-wire" techniques – airborne radar, air data systems, weapons management and control systems, navigation and attack systems, gyroscopes for guided missiles, the Airborne Early Warning System for the Nimrod maritime reconnaissance aircraft, automatic test equipment, and electronic counter-measures systems.

In other military arenas GEC's activities include electro-optical systems such as thermal imaging for surveillance, target tracking and weapons guidance, fire control systems for tanks and ships, and radio systems for the army.

The Ministry of Defence is probably GEC's biggest single customer for its equipment on military aircraft, guided weapons and spacecraft. Much of this is channelled through BAe. The latter is also, however, a big customer of GEC on its own account, especially for civil aircraft and commercial spacecraft.

The two groups are direct collaborators in some areas, such as communications satellites, including the Unisat direct broadcasting satellite system (with British Telecom).

But they also compete in some satellite arenas. One example is the BAe link with Hughes of the U.S. and Matra of France to bid for the next generation of Inmarsat maritime communications satellites against the Marconi/U.S. Ford Aerospace/French Matra group.

In the event of any merger, where activities are competitive – and especially in connection with international bids for new ventures such as satellites – it would seem likely that such activities would be left undisturbed. Whichever group won the contract for the Inmarsat satellites, for example, the BAe-GEC group as a whole would benefit by having a foot in both camps.

The civil and military aircraft and guided weapons activities of BAe would probably continue largely unaffected by any merger with GEC.

The Government would be likely to insist on this, largely because of BAe's importance to the defence programme.

Nor would there be any point in disrupting the already close relationships between the various subsidiary elements of both groups built up as a result of their direct involvement on common programmes.

£100m switch 'aided forecasts'

BY PETER RIDDELL, POLITICAL EDITOR

A TRANSFER of more than £100m of defence spending between the last and present financial years is likely to be examined by parliament's auditors since the switch helped to bolster tha Treasury's public sector borrowing forecast for 1983-84.

The smoothing of the pattern of defence expenditure at the end of financial years has come under close scrutiny from the Public Accounts Committee of the House of Commons. The latest incident has major implications for the setting of annual cash limits and for the forecasting of public expenditure and borrowing.

This problem was supposed to have been dealt with by the Treasury decision last July that the Ministry of Defence would be able to carry forward an underspending of up to 5 per cent of its equipment procurement budget from one financial year to the next. When the figures for the March budget were calculated a significant underspend on defence appeared likely for 1983-84 and this was taken into account in the overall public borrowing estimates.

However, towards the end of the financial year in late March it becama apparent that the underspend in the Ministry of Defence would be much less than thought a few weeks earler. Discussions were then held with the Treasury which was concerned not to upset its recent borrowing projection after tha big overshoot in spring 1983.

Consequently, it was agreed to delay payments on more than £100m of bills for a week or two until the 1984–85 financial year. Mr Keith Sykes of stockbrokers Scrimgeour, Kemp-Gee and Co, who bas identified the switch, has estimated that "about £140m was carried forward in this way to the current year, 1984–85, to leave expenditure and the public sector borrowing requirement in line with budget forecasts."

Mr Sykes says that this switch is the result of changes in internal control in the Ministry of Defence which give it greater control over bill payments.

The Whitehall view is that the Ministry of Defence has merely been practising "good housekeeping" by varying bill payment dates in consultation with defence contractors. The transfer is regarded as above board by the Treasury, no doubt because it helped with the borrowing estimate.

Present official expectations are that defence spending will be about £200m less than its cash limit. More detailed figures will appear in a cash limits White Paper (policy document) on July 5.

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UK NEWS

BETTER INFLATION PROSPECTS BOOST CONFIDENCE IN ECONOMIC STRATEGY

Cliffhanger over interest rates

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

THIS WEEK is likely to be important for the Government's economic strategy – or at any rate for the City of London's confidence in it.

The steady increase in pressure for a further rise in the clearing banks' base lending rates appeared to be almost irresistible towards the end of last week.

On Friday the world's stock markets took a sharply more optimistic turn, however, leaving e weekend cliffhanger for the Government.

The Treasury is still anxious to resist the upward pressure on interest rates if this seems at all feasible this week. It recognises that the success of its economic strategy is still quite delicately poised, and that market confidence is a crucial ingredient.

In particular, the general expectation about the future rate of inflation, after wavering for several months, seems to have become rather more optimistic. Officials therefore see a good chance that declining inflation, stable or lower interest rates and continued economic growth could go on reinforcing each other in a "virtuous circle." On this view, the rise in UK base lending rates to between 9 per cent and 9¼ per cent in the second week of May could easily be shrugged off – provided there is no further rise. If UK rates are dragged up further in the wake of the U.S. markets, however, it is feared that e renewed mood of general pessimism might begin to take root.

Officials still have gloomy recollections of the autumn of 1981, when the authorities had to push UK interest rates up by 4 percentage points to check the slide of sterling against the dollar.

Now, although sterling's value against a trade-weighted basket of *currencies has remained fairly* stable, there seems to be a growing feeling in Whitehall that the rate against the dollar should not be allowed to slip far below its present level of about $1.40.

This is because a lower rate against the dollar would have an immediate short-term effect on British inflation, by pushing up the sterling price of oil and other commodities priced in dollars.

Although the present exchange rate is not e cause for alarm, any indications of weakness would be taken very seriously by the authorities.

In May the high sterling price of petroleum products helped to push up the cost of industry's fuel and materials considerably faster than expected to a level 8.8 per cent above that of e year earlier.

Although the stockbroker Simon and Coates, argues in its economic analysis out today that this was partly a seasonal effect, the figure is not a comfortable one for a government which wants inflatioo to be down to 4½ per cent by the end of the year.

On the other hand any rise in interest rates to defend the pound would itself have an adverse effect on inflation, as well as on prospects for recovery. Apart from the extra burden of costs oo industry any rise in the mortgage rate would feed di*rectly through into the retail prices* index. Officials fear this itself might have an adverse effect on the climate of wage bargaining.

At present, however, the domestic indicators for inflation and for interest rates are good.

As Mrs Margaret Thatcher, the Prime Minister, said at a pre-summit press briefing on Friday, the money supply is growing more or less on target and public spending seems broadly under control. It is true the public sector borrowing requirement for April was considerably higher than generally expected, but the general view in the City is still that it is far too early to take alarm.

Moreover, the general recovery of the economy is continuing about on target, with investment starting to pick up and to help supplement the rise in consumer spending as the engine of growth.

The Confederation of British Industry's latest industrial trends survey, published today, broadly suggests that the recovery in output, accompanied by subdued inflation, will continue at least until the autumn and probably until the end of the year.

There seems no fundamental reason from a domestic point of view therefore, why the Government should not encourage low interest *rates and so help the revival of in*dustrial investment.

If Friday's improvement in the New York stock markets should become more generally sustained, there still seems a chance that it might succed.

If the markets revert to the pattern seen earlier last week, however, e rise in interest rates would seem inevitable, if only to get the Government's funding programme out of the mire.

If rates do start to creep again, where will they stop? This will be one of the main questions which the six other world leaders will be putting to the U.S. President Roland Reagan at the London economic summit meeting on Thursday.

They will hope at least that the U.S. will give some signal that it intends seriously to tackle its budget deficit next year and that this will have a favourable effect

EEC 'must think again' over textiles, say UK unions

BY ANTHONY MORETON, TEXTILES CORRESPONDENT

A POLICY for the textiles and clothing industries throughout the European Community which would maintain production at existing levels and a continuation of the Multi-Fibre Arrangement, which strictly controls imports of many products, is put forward today by the Trades Union Congress (TUC).

There is a need for the Community to *think again* about textiles and clothing since it is "failing to produce an effective package of measures which constitute a coherent policy promoting desirable adjustment," the TUC says.

Presenting a document entitled Textiles and Clothing: A European Strategy, in London, Mr Alex Smith, chairman of the TUC's textile, clothing and footwear industries committee, and general secretary of the National Union of Tailors and Garment Workers, said a European approach was now necessary because trade in textiles was determined at Community level.

"We have not changed our mind about the bad deal Britain gets out of the Community but we do recognise that what happens in Europe matters," be said.

Trade unionists in the industry were willing to adjust, but not at any price. Adjustment had to be planned and the document showed how thet could be achieved.

MAIN RECOMMENDATIONS

- **Policies needed to stabilise employment and regain a bigger share of trade for eec industry.**
- **Entire chain of EEC textile production should be maintained.**
- **Fund should be set up to aid sensitive sectors.**
- ***Multi-Fibre Arrangement* extended beyond 1986.**
- **Need for continuing review of changes within the industry.**

Nearly 3m people are employed in the textile and clothing industries of the Ten (compared with almost 4m in 1975), and upwards of 10m rely on the industries for their livelihood, the report says.

But sluggish growth in demand for textiles and clothing, rapid increases in imports from non-Community countries and the introduction of new technologies have placed unacceptable strains oo the industries.

Many of the problems are the inevitable consequence of the adjustment to change, but many could have been avoided, or their consequences alleviated, if appropriate policies had been pursued.

The TUC says it would like to see a recognition thet all the stages of production should be kept intact, and thet the EEC should set out to increase its share of world trade. It disagrees with a 1981 statement by the European Commission that production should be held at existing levels, since it believes this to be too pessimistic an approach as it would lead to 60,000 job losses a year.

Previous attempts by the Commission to institute a planned restructuring of sectors of the industry contained weaknesses, the report argues. The most notable example was the man-made fibre industry, where the manner in which agreemeots were reached between Commission and employers was "undemocratic and excessively secretive."

The TUC urges that there should be a closer dialogue between the EEC member states and the industry to achieve not only a more *democratic system of policy-making* but also a more open one.

A new mechanism, called the Community Advisory Panel for Textiles and Clothing, oo which all sides of the industry should be represented; has to be created to achieve this greater democracy, the report says.

Commission guidelines on state aids to the industry should be rewritten to legitimise the actions of member states in providing assistance to their domestic industries. A greater consistency of policy-making towards the industry within the Commission will be achieved if the existing bias of the regional and social funds is removed, the report concludes.

Textiles and Clothing: A European Strategy. A statement by the TUC. From the TUC, Congress House, Great Russell Street, London, WC1. Price 75P.

Labour-Alliance front against Tories urged

BY PETER RIDDELL, POLITICAL EDITOR

LABOUR and the Alliance parties should co-operate in a popular front to maximise centre-left opposition to the Conservatives, Mr Frank Field, Labour MP for Birkenhead, and Lord Young of Dartington, e Social Democrat peer, have urged. The co-operation should involve informal proportional representation, they suggest.

They intend later this year to reconstitute the Rainbow Circle to build on the existing measure of agreement between the parties. The title comes from a body established in the 1890s, which lasted until 1930, as a rallying point for social reformers in the Labour and Liberal parties.

Mr Field and Lord Young's case is that the Conservatives are able, under the "first past the post" electoral system, to benefit from divisions between opposition parties. Instead, they urge a transfer of votes to a popular front candidate most likely to beat a Tory. Such a front would require e commonly agreed minimum programme.

They suggest that in the coming Euro-elections such tactical voting, on an organised basis would result in gains for both parties, though more for Labour than the Alliance. Their plan looks unlikely to gain much immediate support in any of the parties. Mr Field's ideas have already been criticised by some fellow Labour MPs.

Mr Neil Kinnock, the Labour leader, has said that in the absence of an overall majority for Labour at the next election, he would still not agree to such co-operation. Relations between the Labour and Alliance leaderships remain strained.

Contracts and Tenders

Department of Education and Science
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This system provides a fully serviced laboratory very quickly and eliminates the need for on-site fabrication. Gas, water and *electrical supplies together with liquid waste disposal* are required at only one point in the room. When needed elsewhere the system can be moved easily and re-erected at minimum cost.

User reaction to the system has been monitored by the LIU at two schools in London. Results and costs are available for comparison with traditional systems.

The LIU now wishes to invite interested companies to tender for the manufacture and marketing of the system, under licence.

Companies wishing to be considered for inclusion in this list of specialised contractors are invited to apply by 20th June 1984 *for the necessary documents to:*

Mr Peter Horsnell, ARICS, Principal Quantity Surveyor, Laboratories Investigation Unit, Department of Education and Science, Elizabeth House, York Road, London SE1 7PH

REPUBLIC OF CYPRUS

SOUTHERN CONVEYOR PROJECT PREQUALIFICATION

The Government of Cyprus invites applications from suitably qualified and experienced contracting firms wishing to be considered for inclusion in a selected list of contractors to tender for the following contract concerning part of the Southern Conveyor Project.
Contract C5: Kokkinokhoria Irrigation System
The works will comprise:
(a) The installation of approximately 40 m of pipeline ranging from 1000 mm to 150 mm including valves, fittings, etc.
(b) The construction of five balancing reservoirs
(c) The construction of thirty-four distribution reservoirs
(d) Miscellaneous works including earthworks, roadworks, storage areas and reservoirs
This part of the Southern Conveyor Project will be financed by the Kuwait Fund. The application and all supporting papers must be in English, and should preferably be on the "Standard Prequalification Form for Contractors" issued by FIDIC, PO Box 83, CH-1000 Lausanne, 12 Chailly, Switzerland. Telex: 24698 FIDI CH. Telephone: (21) 335003.
Financial data should be given in Cyprus pounds.
Information should include:
Details of (a) similar work, (b) other heavy civil engineering works undertaken by the applicant in recent years, giving exactly the involvement of the firm in each project,
Details of the resources of the contractor, including plant, equipment and personnel.
Structure of the company including name and parent, subsidiary and associated companies.
Annual reports and balance sheets for the three years.
Bankers from whom references can be obtained.
Full information must be given separately by each member of any proposed *joint venture.*
Contractors who have already submitted prequalification documents for Group B which included Contract C5, following our previous invitation of December 1983, need not submit a new application.
Applications, with two copies of enclosures, should be delivered not later than the 23rd of June 1984 to:
Director, Department of Water Development
Ministry of Agriculture and Natural Resources
Demosthenis Severis Avenue, Nicosia, Cyprus

INTERNATIONAL NOTICE OF CALL FOR TENDERS FOR THE SUPPLY OF A TROLLEY ASSIST SYSTEM FOR OFF-HIGHWAY TRUCKS PRESELECTION NOTICE

The project consists of a complete turnkey trolley assist installation for UNIT RIG and WABCO dumpers equipped with a General Electric drive system; it includes the training of the maintenance staff and technical assistance.

The invitation to the preselection tender dossier, which is in French, may be obtained on application to
—GECAMINES - BP 450 - Lubumbashi (Republic of Zaire)
—GECAMINES - BP 8714 - Lubumbashi (Republic of Zaire)
—GECAMINES - Rue de la Loi, 15, Bte 051 - B - 1040 Bruxelles (Belgium).

Tenders must reach:

Monsieur le Président
Délégué Général de la GECAMINES
BP 450 - Lubumbashi - République du Zaire
on 15.10.1984 at the latest.

WANDSWORTH BOROUGH COUNCIL

RE-ROOFING, CONCRETE AND WINDOW REPAIR WORKS AT FITZHUGH ESTATE, TRINITY ROAD S.W.18

Contractors wishing to be considered for selection to tender for re-roofing, concrete and window repair works to 5 No. 10-storey blocks of occupied flats at Fitzhugh Estate, Trinity Road, London, S.W.18, should submit names to the Director of Administration, Room 111, The Town Hall, Wandsworth High Street, London SW18 2PU, by 11th June 1984.

The works will include the renewal of ent roof coverings including allied works of replacing external duct covers, providing perimeter railings and repairing tank room walls. Also concrete repairs to all balconies, including resurfacing the balcony floors and provisionally repairing and overhauling the staircase windows.

It is anticipated that tenders will be invited from selected contractors against a prepared specification and drawings in July 1984, and that the contract will commence in September 1984.

The architectural services of this scheme will be provided by Messrs. Collcutt and Hemp of 171 Seymour Place, London W1H 5TP, under the direction of R. Child, RIBA Borough Architect, The Town Hall, Wandsworth High Street, London SW18 2PU.

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UK NEWS

Police powers under scrutiny

PARLIAMENT returns today and the House of Lords sits down immediately to discuss the Police and Criminal Evidence Bill. However, the version to be scrutinised by peers is not at all what the Government first intended in 1982.

The Bill grew out of the recommendations of the 1978 Royal Commisssion on Criminal Procedure which recommended that the haphazard development of police powers over two centuries required a more formal presentation and definition.

The first version of the Bill was introduced in the autumn of 1982 by Mr William Whitelaw, the then Home Secretary. It aroused a storm of controversy and criticism and its parliamentary mauling was cut short by the general election. The Bill, already emasculated, fell on dissolution.

The critics had ganged up against the Government from all sides. The civil liberties lobby thought it encroached too far on personal freedoms; the police thought it left them as second-class citizens with no rights of representation; doctors and lawyers formed an unholy alliance against the potential threat to the confidentiality of their files; and parliamentarians were appalled at the Bill's sloppy, ambiguous drafting.

Not surprisingly the new Home Secretary, Mr Leon Brittan, who is a lawyer, paused for long thought. He ordered substantial changes and major redrafting and brought a new version of the Bill to the Commons. These changes, coupled with further amendments added during a record 59 sittings of the committee stage of the Bill, mean more than 300 alterations have been made, so far, some of them substantive.

There have been 147 hours of debate, during most of which Mr Gerald Kaufman, the Opposition representative on home affairs, is generally thought to have had the better of the Home Office ministers responsible for nursing the Bill along.

The Government has clearly given much ground in an attempt to find consensus in one of the trickiest areas of society's arrangements.

However, the marathon is far from over. The lobby groups have taken a second wind and are looking for further key changes in the Lords. Government managers have warned that hopes of a smooth passage might be optimistic, although the Bill is still expected on the statute book by next month.

What are the key provisions of—and objections to—this Bill, which has grown from 78 clauses in the first version (known affectionately as "Old Bill") to 110 clauses in the new Bill and which has been discussed line-by-line, on and off, for one and a half years?

Stop and Search: The Bill extends to all England and Wales the existing powers in London and a few other areas for police to stop and search people on reasonable suspicion for stolen goods. It also brings in powers to stop and search for offensive weapons and house-breaking implements.

A curiosity here is that police can apparently stop and search in a private front garden adjoining a public highway, but not a private back garden. Another difficulty highlighted in the report from the Home Office is that the power to search for weapons, introduced in 1981, proved its worth with 439 offences being detected in 22 months.

"Twenty seven per cent of those searched were subsequently convicted of the offence." But this means 73 per cent were not convicted—more than seven out of 10 stops for search on this score do not produce a conviction, which adds importance to the new Bill's safeguards that the powers will be used "sparingly and responsibly." Officers will have to make an official report of each search.

Road Checks: The current law gives any police officer the unrestricted right to stop a driver. The new law means a police officer of superintendent rank or above will have to authorise road checks.

Personal Searches: The police can currently search people if they have "reasonable grounds" for wanting to do so. This occasionally includes intimate searches for concealed articles, particularly drugs.

The first version of the Bill would have continued this practice, preferably by a doctor, but otherwise by a police officer of the same sex as the suspect. The new Bill limits intimate searches to those where the police suspect articles are being hidden, which might be used to cause physical harm.

A lobby still exists to make this allowable only by a doctor but thus far the provision still allows a police officer of the same sex, authorised by a superintendent, to make the search.

Detaining suspects for questioning: Under the current law an arrested person must generally be brought before a court or be released within 24 hours although there is an open-ended possibility (limited by the possiblity of habeas corpus applications) for the police to keep suspects in "serious" cases longer and bring them to court "as soon as practicable."

"Old Bill" created a public outcery because it would have allowed police to keep suspects in serious cases up to 36 hours and then, with court permission, for a further 60 hours. The new Bill contained the same provisions, but the Government was forced to make an important concession requiring the police to go back to court once more between the 36-hour and 96-*hour limit.*

The National Council for Civil Liberties, which will be keeping up the pressure on this point, says: "*This is an* improvement as it will require the police twice to argue for further detention. But it should be noted that the starting point for this procedure is after the person has been kept in custody incommunicado and without access to a solicitor for 36 hours."

Search of premises: The current law is bizarre. It contains no powers to enter premises to search for a murder weapon or equipment used in a bank robbery and the police have complained about the absence of enough powers to enable them to gain evidence of commercial and financial fraud.

However Old Bill provoked a public furore about the extension of powers to search third party premises where the owner was not suspected of an offence—*offices* of *lawyers, doctors* and social workers, for example.

The Government has created a category of excluded material to protect the following items from compulsory disclosure: documents and letters covered by legal privilege, medical and other confidential personal records held by the caring professions, samples of human tissues and tissue fluids, and confidential journalistic records.

A separate category of material comes under the special procedure heading: the police are required to obtain *a circuit judge's permission* before obtaining confidential information such as bank records or accountants' files.

This will also apply to confidential journalists information not covered by the exclusion category. Journalists were included by Mr Brittan in these partially protected categories because they feared their traditional right to protect their sources might be threatened.

Once included, journalists and editors were divided on whether it was right for a journalist to lose his or her status as a member of the Public working on behalf of the public.

The Government has tried to allay journalists' fears and it is not Mr Britian's fault if the media have become ambivalent about its status. However the NCCL is still highly critical of these new powers of entry, search and seizure. It quotes Lord Scarman who said, in relation to the exercise of a similar power by the Inland Revenue in the Rossminster case, that it was "a breathtaking inroad on the individual's right of privacy and right of property."

In addition it points out that protections and safeguards disappear once the police have gained entry to premises through a warrant. Once inside the police can seize any item, except legally privileged materials.

Confessions: The Government made an important concession on the question of confessions by removing the right of the courts to consider the truth or falsity of a confession *when determining its* admissibility.

However, the legal lobby and the NCCL are still anxious about the Bill and are hoping the Lords will pay particular attention to the contentious clause 69 under which statements obtained by police officers in breach of the provisions of the Bill or codes of practice would still be admissible in court.

Not all the objections to the Bill have come from the policed sector of the community. The police objected to proposals covering police complaints and discipline which the Police Federation said reduced every man and woman on the beat to "the rank of second class citizen."

This was because the Bill would have continued the present system which denies the right of legal representation during complaints hearings.

The Government, acknowledging the number of concessions it had been forced to make by the civil lobbies, conceded the police protest and amended the Bill to give police officers the right to be represented by lawyers.

With this concession the Government could fairly claim to have given something to all objectors. However, there are signs that further amendments are likely to be made in the Lords to take the Police and Criminal Evidence Bill still further away from Old Bill.

Robin Pauley

UK NEWS

Cross-Channel dig for power link

David Fishlock describes a £600m Anglo-French project to bury cables in the seabed

THE LAST few feet of a pair of deep trenches in the seabed of the English Channel will be cut at Folkestone today, completing one stage of a £600m project to link the British and French electricity systems.

On the seabed beneath passengers on the Folkestone to Calais ferries a special robot tractor has been excavating the parallel trenches 5 ft deep, in readiness for cable-laying this summer.

The governments of Britian and France initially refused to sanction the joining of the national systems through semiconductor convertor stations on each side of the channel until engineers had shown that they could bury the cables out of reach of anchors.

France has yet to cut its pair of trenches but plans to do so this autumn using its own techniques.

The project is a joint venture between the Central Electricity Generating Board and Electricité de France to join their systems with cables capable of transmitting 2,000 MW – the output of a large generating station. For the economics to be right, the link has to have high availability.

Previous experience with a 160 MW cable, laid on the seabed in the early 1960s, showed very poor availability because it was repeatedly broken by trawls. The toughest part of the job of cutting the trenches has been the last three miles to the Kent coast through sandstone overlaid with large boulders.

A giant Dutch dredger called "Big Boss" had to be hired to scrape the seabed clear of boulders and smooth a path for the submersible trenching machines. The robot has cut four parallel trenches through the sandstone at Folkstone, two for the French, whose trenching technique will not cope with the rocks.

Mr John Yates, project director, admits that the sandstone proved tougher and more costly to trench than expected. Their seabed trencher was impeded until they hit upon the idea of smoothing a path for it first. His next problem is to pick a 14-day spell of fine weather in the Channel to lay the first cable.

The cable, in continuous 50-kilometre wheels weighing 3,400 tonnes, will be coiled on the deck of the Venturer, a new offshore support vessel, of 13,700 tonnes deadweight.

They will feed a second special British submersible, which will haul itself along a steel hawser already laid in the British trenches while feeding cable into the trench.

The French are adopting a different technique, with a seabed machine that simultaneously cuts a trench and lays cable. Each French cable is expected to take 22 days to lay, requiring an unbroken spell of good weather which the British engineers thought was asking too much of the Channel.

Where the two electricity companies have agreed to pool resources is in the development of a large seabed habitat for the repair of cables, as insurance against offshore disasters.

They have approved a £5m joint venture between two companies, Slingsby Engineering in Britain and ACB in France, for the development of a chamber that can squat on the seabed over the trench.

Five men will be able to work shifts in this chamber – 13 ft long – if, for example, a big ship dragging its anchor were to plough through a cable. "We hope we will never use it," says Dr Peter Howard, director general of the CEGB's transmission division.

According to Dr Howard, for the economics of the £600m investment to be advantageous, availability of the link must be high and be is aiming for a figure of 95 per cent.

The economic case for the connection has three different components. One is the saving on "spinning reserve" generating capacity kept ticking over in readiness for a sudden surge in demand.

Another is that each country will be able to help the other in emergency, as France was able to do through the earlier link when the CEGB was badly hit by winter weather.

The third is the opportunity for trading surplus electricity at favourable prices. This is made particularly attractive by differences in the national daily peaks in demand.

Although commercial negotiations on power dealing cannot be finalised until the project is nearer completion, Dr Howard believes that the estimate that it will pay for itself in six years still holds good.

Central control over the shuttling of power back and forth will be exercised by the CEGB from the national control centre in London, although control rooms at each end of the 30-mile cable will keep in constant communication about the amount and direction of electricity flows.

Power will flow as direct currents at 275 000 volts, insulating each electricity system from slight differences in the behaviour of the other. It will be possible to transfer power, at a rate of increase of 18 MW per second, to meet an emergency.

Despite the necessity for large electrical installations at each end of the connection, to convert AC to DC and back to AC, total losses are calculated at only 1.25 per cent.

Mr Yates says the partners are in step in cost and schedule. They plan to start commissioning the first of four 500 MW cables next February and hope to have it in service late next year.

BL launches luxury Range Rover for U.S. market

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

AS PART of the preparations to take Range Rover to North America, British Leyland has launched the most luxurious version since the four-wheel-drive vehicle first went into production 14 years ago.

The Land Rover company, which produces the Range Rover in Coventry, wants to take the luxury vehicle well up-market so that it will not have to compete head-on with American products.

General Motors, Ford and American Motors' Jeep subsidiary have all launched lighter four-wheel-drive vehicles with lower fuel consumption in the past year.

Mr Tony Gilroy, managing director of Land Rover said at the weekend: "All the things we are doing to the Range Rover, for example fitting electric windows in the top-of-the-range model, are part of this process of lifting it even higher up the luxury range. When we take Range Rover into the U.S. we must get it right – the U.S. is a most unforgiving country if you get it wrong."

He insisted, however, that Range Rover would go to the U.S. "We would not continue to use scarce engineering resources to prepare it for the U.S. unless we were serious."

Mr Gilroy would not be drawn about the timing of the launch. Further studies were taking place, he said.

Previous market research shows the Range Rover would appeal in particular to American mothers. However, the fact that the Range Rover uses a V8 engine is a drawback because power unit of this type are considered by some people in the U.S. to be fuel-hungry.

Mr Gilroy said world Range Rover sales would probably reach a record this year, beating the 13,235 produced in 1982.

Sales have been gathering pace after the major changes made to the vehicle – the introduction of a four-door version in 1981, the automatic gearbox the following year and the five-speed manual gearbox in 1983.

About 400 changes have been made to the Range Rover

Strategy shift by manpower services unit

By Alan Pike, Industrial Correspondent

A SHIFT in the Manpower Services Commission's (MSC) future strategy from unemployment schemes to helping industry become more efficient is illustrated in its corporate plan for 1984-88 published today.

The plan, which discusses the MSC's policy for the 1980s, points out that previous annual plans have placed considerable emphasis on the development of successful programmes aimed at the problems of youth and long-term unemployment.

Although the MSC expects historically high levels of unemployment to persist it believes there will be a small improvement in the position this year.

UK NEWS

Further decline in merchant fleet

By Andrew Fisher, Shipping Correspondent

THE UK merchant fleet declined to below 20m deadweight tons (dwt) this year, its lowest for 25 years.

The fleet stood at 19.8m dwt at the end of March, less than half the 50m dwt peak reached in 1975. The General Council of British Shipping (GCBS) said 33 ships left the UK-owned and -registered fleet in the first quarter of 1984.

This brought the size of the UK fleet down to 736 ships. At the end of 1975 the figure was 1,814. By the end of 1981 this had fallen to 994 ships, totalling 29.4m dwt, with a further slump to 789 of 20.7m dwt by the end of 1983.

Mr Patrick Shovelton, the director-general of the GCBS said: "The figures confirm the need for the Government to help British shipping and not take away such fiscal advantages as it did have until the recent budget."

● The Atlantic Concert, 36,000 dwt, the second of a fleet of five roll-on roll-of container ships being built for the *Atlantic Container Line* (ACL), sails on her maiden voyage today to Canada and the U.S. from the Royal Seaforth dock complex on the Mersey, Liverpool.

Her sister ship, the Atlantic Companion, went into service last month.

Atlantic Concert, one of the most versatile and technologically advanced ships afloat, was loaded virtually to its capacity of 2,130 containers and 600 cars.

ACL, the major user of the Royal Seaforth terminal, has invested more than £200m in the fleet, which will progressively take over the weekly service between Liverpool, the sole UK port of call, Halifax, Nova Scotia, and New York.

Unions angry at proposed change to strike law

BY PHILIP BASSETT, LABOUR CORRESPONDENT

TRADE UNION leaders reacted angrily yesterday to the Government's proposed strengthening of its Trade Union Bill in the wake of the miners' strike.

Union leaders and academics joined together to condemn the proposed changes in the Bill, which is now in its committee stage in the House of Lords. The changes were revealed by Mr Tom King, Employment Secretary.

Speaking to reporters at the annual conference of the Conservative Trades Unionist Group in Birmingham at the weekend, Mr King disclosed that the Government is about to table an amendment to the Bill which would require a trade union to win a majority in a ballot in support of strike action in order for the union to retain legal immunity from civil court action.

Mr King made it clear that the amendment was being considered because Mr Arthur Scargill, President of the National Union of Mineworkers, was flouting the wishes of his members in maintaining the strike. He said: "We did not think any union would embark on industrial action without the support of the majority of its members. The fact is that we have a different situation now, and some would be prepared to take such action. It would therefore be extremely difficult to carry legislation which does not cover that point."

He elaborated this point in his address to the conference, when he said: "The message is clear – whatever the objections the true voice of the miners in a workplace ballot would come through, and the vast majority would vote for a return to work".

NUM leaders can hardly have foreseen that one of the results of the strike would be a hardening of the legislation, which the unions had campaigned vigorously to oppose. However, the Government is also making a concession in proposing the change. Up to now it had resisted pressure from backbenchers and employer groups to make precisely this alteration and Mr King's disclosure is an acknowledgement that its thinking had been wrong on this point.

The amendment, described by Mr King as a "technical drafting," is likely to be very short, merely inserting the words "simple majority" into the relevant section of the Bill.

Mr King's revelations drew an angry response from trade union leaders. Mr Bill Keys, Chairman of the TUC Employment Police Committee and general secretary of the print union Sogat '82, said it would increase the likelihood that the Bill would provoke a rash of unofficial strikes.

Mr Moss Evans, General Secretary of the Transport and General Workers Union, said in a radio interview that the change would not help an already complex position. He said: "We are in a very serious dispute, and arguing technicalities with Conservative trade unionists is not going to bring an end to the dispute."

Union leaders were supported by Lord McCarthy, the Labour peer and industrial relations expert, who questioned the wisdom of introducing further legislation when the current law was not being used by the employers in the dispute.

Peers are themselves likely to table an amendment to the Bill to try to make postal ballot mandatory.

Insurers still counting winter storm costs

BY ERIC SHORT

THE STORMS and blizzards of last winter have been forgotten by most people in Britain. However, insurance companies operating in the UK have been counting the cost. The total cost of adverse weather claims is likely to approach £200m.

Such a figure will put last winter on a par with that of 1981–1982 as a disaster for the British insurance industry in terms of cost. This still comes as a surprise to people living in the south and south-east of the country who felt the impact of the 1981–82 winter, but got off lightly last winter.

Only six UK insurance groups have quantified the cost to them of last winter's weather damage and their aggregate claims come to about £100m. The British Insurance Association is expected to announce its final assessment of the cost at its annual meeting this month.

Most claims have come from private households for storm damage to roofs and outbuildings, or for damage caused by burst pipes. These costs have been a major factor in certain insurance groups – Commercial Union, General Accident, Royal Insurance and Sun Alliance – reporting pre-tax losses for the first quarter of this year. Two other groups, Guardian Royal Exchange and Phoenix Assurance, showed pre-tax profits, but greatly reduced.

Thus the year has started badly for the UK insurance industry. Until recently, pre-tax losses were a rare occurrence for UK insurance companies because investment income adequately covered normal underwriting losses.

While last year's poor performance of the industry was blamed mainly on overcapacity and irresponsible competition, chief executives cannot really use that excuse for this year's first-quarter figures.

They are talking about changing weather patterns in the northern hemisphere in discussing their poor results. Ample references are being made to an article in the February issue of the National Geographic Magazine, which deals with this subject, and the "El Nino" effect in the Pacific Ocean, which is claimed to be the primary cause of these changes.

The executives admit freely that the premium rates they charge for insuring homes are quite inadequate to cover risk levels based on the winter weather patterns of the past few years.

Underwriters assessing these rates have assumed pattern of one bad winter every five years, a rate which has served them well for over half a century, enabling them in general to run a profitable portfolio. House building premium rates remained unchanged since the 1920s until three or four years ago, when they were increased to cover the subsidence risk – another nightmare for underwriters.

The problems facing underwriters on rates and weather patterns are twofold. The first is whether this weather pattern change is permanent. Insurance companies have been consulting meteorological experts at universities on the subject, but as yet there is no firm scientific conclusion.

The second problem is whether an insurance company would be able to take unilateral action in increasing its premium rates in view of the keen competition.

Those chief executives, when stating that rates are inadequate, emphasise in their next breath that they have no intention of increasing rates, at least for the time being. They are all adamant that any such rate increases could be implemented only if all companies did it more or less at the same time – something that would attract the attention of the Office of Fair Trading.

That aspect illustrates the influence of the building societies. Although householders are free to place their house insurance with any approved insurer, the vast majority of building society borrowers still have their houses insured through building society block policy arrangements.

These block policies account for a big segment of the house-buildings insurance market – one that certain insurance companies have got tied up and which other companies would like to share.

Sizewell planners may use simulator to gauge staff stress

FINANCIAL TIMES REPORTER

THE CENTRAL Electricity Generating Board (CEGB) is planning to use simulator facilities in Norway to investigate the stress under which the staff who operate the proposed Sizewell B reactor on the east coast of England may work.

If final negotiations succeed, a research programme will start next year and last three years. The results would be available in time to have an impact on the design of the Sizewell B control room and the training given to operators.

If the board does get approval to build Sizewell B, the final design of the control room will almost certainly have to be ready in time for an exact copy to be built and used in training for two years before the reactor starts generating.

Sir Frank Layfield QC, the inspector at the long-running public inquiry into the Sizewell project, has indicated that any recommendation to approve the project will be accompanied by such a condition.

The board's proposal for designing the Sizewell B control room came under scrutiny last week from the Ergonomics Society. The society wants the inspector to ensure that plant operators will have the very best facilities and conditions for controlling the reactor safely.

Witnesses from the society told the inspector last week that they particularly wanted to avoid a repetition of aspects of poor design which were evident in the control room of the Three Mile Island power station in the U.S., where an accident occurred five years ago.

The CEGB argued it would be imprudent at such an early stage to draw up detailed proposals for the control room.

The National Nuclear Corporation (NNC) has assured the inquiry that the development of detailed plans for the power station itself is proceeding efficiently.

Mr Ted Pugh, managing director, denied in a written answer that the joint project teams set up between NNC and the CEGB lacked status and, therefore, responsibility.

Mr Henry Brooke QC, counsel to the inquiry, had described the joint project team as "a body of individuals without a corporate identity and, therefore, without the obligations and responsibilities of corporate bodies." Mr Pugh said the team was an instrument of the corporation which was, in turn, answerable to the CEGB in the Sizewell B project.

Liquidity ratio rises

BY JAMES McDONALD

THE LIQUIDITY ratio of companies rose to its highest level since 1978 in the first quarter of this year, a Department of Trade and Industry (DTI) survey shows.

Net current assets of 265 companies were put at £2.39bn compared with £1.55bn in the final quarter of 1983 and a deficit of £553m in the first quarter of last year in a survey covering 241 companies.

The liquidity ratio per cent – total current assets as a percentage of total current liabilities – stood at 125 in the first three months of this year for the companies surveyed, compared with a figure of 118 in the final quarter of 1983, and with a liquidity ratio of 94 in the first three months of last year.

"Although the number of contributors to the survey has increased, results are still based on a panel of large companies and are not necessarily representative in terms of size, spread and industrial make-up of large companies as a whole," the DTI says.

Restriction on drug sales urged

By Carla Rapoport

ABOUT 800 prescription drugs for sale in Britain are either ineffective or over-prescribed, according to a new report by Social Audit, the consumer action group.

The study, entitled "The Wrong Kind of Medicine," argues that the National Health Service could save millions of pounds a year if the sale of these drugs were restricted or banned.

The UK drug industry called the study "ill-conceived" and "dangerously misleading."

The Association of the British Pharmaceutical Industry said the report could "undermine patient confidence in valuable medicines and damage British research and exports."

Britain has more than 8,500 prescription drugs for sale, compared, with 1,900 in Norway and about 2,500 in Sweden, the report points out.

It charges that the benefits of Britain's huge drug list "are essentially to do with trade, not health."

BASE LENDING RATES

A.B.N. Bank	9 %	C. Hoare & Co. †	9 %
Allied Irish Bank	9¼%	Hongkong & Shanghai	9 %
Amro Bank	9 %	Kingsnorth Trust Ltd	10 %
Henry Ansbacher	9¼%	Knowsley & Co. Ltd.	9¼%
Associates Cap. Corp.	9 %	Lloyds Bank	9 %
Banco de Bilbao	9¼%	Mallinhall Limited	9 %
Bank Hapoalim BM	9 %	Edward Manson & Co.	10¼%
BCCI	9¼%	Meghraj and Sons Ltd.	9¼%
Bank of Ireland	9¼%	Midland Bank	9¼%
Bank of Cyprus	9¼%	■ Morgan Grenfell	9 %
Bank of India	9¼%	National Bk of Kuwait	9 %
Bank of Scotland	9¼%	National Girobank	9 %
Banque Belge Ltd.	9¼%	National Westminster	9 %
Barclays Bank	9¼%	Norwich Gen. Tst.	9¼%
Beneficial Trust Ltd.	10 %	People's Tst. & Sv. Ltd	10 %
Bremar Holdings Ltd.	9 %	R. Raphael & Sons	9 %
Brit. Bank of Mid. East	9 %	P. S. Refson & Co.	9¼%
■ Brown Shipley	9¼%	Roxburghe Guarantee	9¼%
CL Bank Nederland	9 %	Royal Trust Co. Canada	9¼%
Canada Permn't Trust	9 %	■ J Henry Schroder Wagg	9 %
Castle Court Trust Ltd.	9¾%	Standard Chartered ‖	9¼%
Cayzer Ltd.	9¼%	Trade Dev. Bank	9¼%
Cedar Holdings	9 %	TCB	9 %
■ Charterhouse Japhet	9¼%	Trustee Savings Bank	9 %
Choulartons	10¼%	United Bank of Kuwait	9 %
Citibank NA	9¼%	United Mizrahi Bank	9 %
Citibank Savings ¶	9¼%	Volkskas Limited	9¼%
Clydesdale Bank	9¼%	Westpac Banking Corp	9 %
C. E. Coates	10¼%	Whiteaway Laidlaw	9¼%
Comm. Bk. N. East	9¼%	Williams & Glyn's	9¼%
Consolidated Credits	9¼%	Wintrust Secs. Ltd.	9¼%
Co-operative Bank *	9 %	Yorkshire Bank	9 %
The Cyprus Popular Bk	9¼%		
Dunbar & Co. Ltd.	9¼%		
Duncan Lawrie	9¼%		
E. T. Trust	9¼%		
Exeter Trust Ltd.	10¼%		
First Nat. Fin. Corp.	11 %		
First Nat. Secs. Ltd.	10 %		
Robert Fraser	10 %		
Grindlays Bank ‡	9 %		
■ Guinness Mahon	9 %		
■ Hambros Bank	9¼%		
Heritable & Gen Trust	9¼%		
■ Hill Samuel §	9¼%		

■ Member of the Accepting Houses Committee.
* 7-day deposits 5.75%. 1-month 6.50%. Fixed rate 12 months £2,500 6.5% £10,000. 12 months 8%.
† 7-day deposits on sums of under £10,000 6%, £10,000 up to £50,000 6½%, £50,000 and over 7¼%.
‡ Call deposits £1,000 and over 5¾%.
‖ 21-day deposits over £1,000 7%.
§ Demand deposits 5¾%.
¶ Mortgage base rate.

THE MANAGEMENT PAGE

Kielder Water is virtually a white elephant for the Northumbrian Water Authority. Twelve years ago projected demand for 1984 was 228m gallons a day; actual consumption is 138m gallons

Belt-tightening in a public service

Nick Garnett on Northumbrian Water Authority's economy measures

WHAT IS the connection between the massive decline in the North East of England's heavy manufacturing industries, manning levels needed to dig a hole, and the government's financial arm-lock on public bodies?

The answer is the organisational shifts and manpower reductions that have been percolating through the country's third smallest water authority, reflecting in the most pronounced form the changes seeping through much of the rest of the water industry.

Under the stimulus of financial pressures, including evaporating water demand from recession-hit Tyne and Teesside manufacturing and the interest burden on big capital schemes, the Northumbrian Water Authority has been behaving in a way *that at least the Government would applaud.*

Since the Conservatives came to power in 1979, it has cut its workforce by a quarter (250 to 1,900), the biggest percentage reduction by far of any regional water authority.

It has also taken a layer out of management, introduced greater flexibility between work on water supply and sewerage and changed the manning levels of its outside work gangs, linked to a new bonus system.

These changes have been soaked up without any real discernible impact on services to the consumer though some work is now deliberately delayed. For example, small mains bursts at weekends are left until a weekday, saving overtime and call-out pay.

The unions have generally agreed these changes, accepting that there was fat in the organisation. The road has been smoothed by a policy of no compulsory redundancies and a buy-out of the old—and more lucrative—bonus and overtime systems. Some manual workers lost up to £40 a week and in extreme cases the one-off buy-out payments have been as high as £3,000.

Unions do not remain acquiescent forever, however. There is a *growing likelihood* that these changes will ignite a more hostile union response if cuts in some areas continue much further.

Ian Crosskell, branch chairman of the National and Local Government Officers' Association at the water authority's Newcastle headquarters, says this will occur if the workforce sees that pruning through good management gives way to cutting by Government diktat. "You can't continue like this indefinitely, yet there are signs that the Government is bent on cutting operating costs without much regard for services," he says.

The Government's squeeze on water authorities is not letting up. The Northumbrian, in common with others, has been subject to the Government's thirst for cost reductions. The Government began setting performance targets five years ago and last year's Water Act underscored this. Tougher external finance limits were added to a drive to induce more commercial attitudes.

The Northumbrian was already moving down this efficiency stream anyway because of a confluence of two local problems that had landed it in hot water.

One was the interest payments on two big construction projects—the £170m Kielder Water transfer system and the £120m Tyneside sewerage scheme. Interest charges now absorb a half of the Water Athority's £100m revenue against an average of a quarter for the rest of the industry.

The other is the rapid decline of heavy manufacturing and its withering requirement for water. The Northumbrian Water Authority was always vulnerable to this because industry accounts for 60 per cent of water take, far higher than in other regions.

Six years ago, consumption was 158m gallons a day. Even with marginally-rising domestic demand, total consumption has now slipped to 138m. The British Steel Corporation's Redcar site is taking just a tenth of the water it once consumed.

These figures look much worse when compared with what has proved to be hopelessly optimistic demand projections. At the 1972 Kielder inquiry projected demand for 1984 was 228m gallons a day but actual consumption is now just 60 per cent of that. Kielder is virtually a white elephant and the Water Authority and its customers are still paying for it.

The Water Authority has been meeting this headache partly by steep water rate increases, attempts to export water — a contract to supply Gibraltar by tanker is already on stream—and vacating office space.

But the most significant changes have been internal. Water Authority management says much of this has been related to unscrambling the separate internal fiefdoms set up when water authorities were formed 10 years ago from local councils and other bodies. "It was party time," says John Redpath, organisation services officer, about those empire-protecting times. "People were used to getting more money, more staff." Senior management are keen to refer to changes as a "cultural" shift in attitudes.

The £6m yearly wage bill savings have come evenly from staff and manual workers. Reducing work-gang sizes *has* been one principal feature. "Three or four men, including an excavator driver, used to go out to tackle a mains burst but you generally dig a hole only big enough for one man to work in," one senior manager says.

The Water Authority now normally utilises two-man groups. When local councils ran the show, six-man gangs on water bursts was common.

Demarcation has been nibbled into. Some fitters' mates have been transferred to mains-laying groups. Workers are now required to accept temporary and permanent transfer from water supply to sewerage work. A pumping station attendant, for example, might now be asked to work on sewage disposal.

The Water Authority has also changed the frequency of tasks in sewage disposal. The screens which separate out the "solids" are cleaned once a day *instead of twice.* The channels on the sedimentation tanks which used to be scrubbed once a day are now done three times a week. The Water Authority says this in no way impairs equipment *efficiency* but *it is* not clear what it does to the odour-filled environment of those people who work with the equipment.

The unions have also cooperated in *replacing* permanent weekday manning at small sewage works by visiting teams. These and other changes have permitted a 38 per cent decrease in the manual workforce in the sewerage service.

Some of these changes have flowed from the continuous introduction of new equipment and automatic metering. Declining workloads in some areas have *also* affected the Water Authority's white-collar staff. Water sampling programmes have been reduced, for example, at no loss to water quality. The 129 scientific back-up staff have been brought down to 85.

There has also been considerable restructuring. Payroll and purchasing in the Authority's three divisions have been centralised, cutting that workforce in half. The separate managerial posts for water supply and sewerage services in each division and that of divisional engineer have been fused into the single post of divisional operations manager.

Two directors and six assistant directors have gone. The planning and scientific services directorate has been scrapped with planning work pushed lower down the structure and scientific work subsumed into the operations directorate. The separate unit for administration has been washed away, the residue combined with the manpower section.

A management committee was set up three years ago by Frank Ridley, the Authority's chief executive. This is designed to appraise managers, monitoring their ability to work within a *performance-based ethos as well* as planning career development.

White-collar union officials have doubts about this because they feel that career development is being confined to the upper levels of management. There are also question marks over the impact of overall changes on morale and the unpleasantness of reducing job opportunities in areas of very high unemployment. Some businessmen *question* how performance-oriented any monopoly supplier can become.

North-East industry would rather not have the burden of Kielder on its shoulders. It welcomes, though, an efficiency drive which means water charges lower than they would otherwise be.

Finding the 'right' sort of worker for greenfield sites

BY BRIAN GROOM

FISHER BODY, the expanding General Motors components plant established four years ago at Dundonald near Belfast, is choosy about the hourly-paid workers it takes on. If you are introverted or—at the other extreme—very bolshie, your chances are slim.

Applicants who pass the initial interview and tests are put through a four-hour "assessment centre." A series of exercises and games identifies how well their skills and personality match the company's aims.

Applying this sort of technique to manual workers is unusual. Normally it is used for more senior grades like graduate trainees. But if other companies have not gone quite so far, it is nonetheless part of a clear trend: with new jobs like gold-dust, those employers in the UK who are providing them are taking extraordinary pains to get the right kind of workers they want.

The lengths to which they go are described in a new study of factories on greenfield sites by the research company, Incomes Data Services. Apart from Fisher, the researchers examined several companies and focused on Whitbread at Magor in South Wales, Carreras Rothmans at Spennymoor, and Trebor at Colchester. All started production in 1979-80.

Most companies were looking not just for a greenfield site, but to a large extent for "green labour" as well. The companies recruited nearly all their non-management employees from the locality of the new site, and transferred very few from other locations.

Anxious to get off on the right foot, companies tried through their recruitment policies to avoid importing traditional demarcations or other restrictive practices. This applied not just to the bottom grades; they wanted as far as possible to develop "home-grown" leaders from the new workforce rather than recruit experienced supervisors with entrenched attitudes.

Managers, too, were chosen for the flexibility and creative thinking needed on a new site. Rothmans made *clear it* wanted good personal skills and leadership qualities in its front-line cadres, and was "not looking for seasoned managers aged 45-plus."

Many of the plants have the by-now familiar features of work organisation on greenfield sites: flexible working practices; fewer tiers of management; abolition of the roles of chargehand, foremen and conventional surpervisors, with enhanced status of first-line managers; dissemination of more information on work-related matters; and communication to and from employees *directly, through group meetings* rather than trade unions.

Most notably, workers are organised in groups which take joint responsibility for a range of tasks, allowing individuals greater variety in the kind of work they do and reducing boredom. Their interdependence made it crucial to avoid weak links.

Companies wanted openness, flexible attitudes and reliability. Where the applicant had been employed before, they tended to look carefully for evidence of good attendance and at time-keeping records.

There was a marked tendency to recruit people aged between 25 and 40—more reliable than teenagers, and more flexible than the over-50s. At Rothmans two-thirds of the workforce is under 35.

Recruitment procedures generally included an application form, two interviews, following-up of personal and employment references, and a medical examination. At Trebor acceptance depended on assessments not just by management but also by potential colleagues in the work groups.

Fisher also included a fitter and an assembly worker among assessors who rated candidates for qualities of trust, persuasiveness, interpersonal skills, analytical ability, skill at oral communication, decision-making, ability to plan and organise, to play a full part in group activities, and take account of the needs of the individual and the organisation.

IDS says five years is too short a time to evaluate most of the plants, but comments on a number of features such as *Fisher Body's high quality* levels.

It points out, however, a number of problems at various sites such as difficulties in recruiting electricians with skills in electronics, or delays in the delivery of equipment. Rotating workers from task to task may increase job satisfaction, IDS adds, but it can hinder workers from becoming expert in some types of equipment if they use it infrequently.

Group Working and Greenfield Sites. IDS Study 314; 140 Great Portland Street, London W1.

Business courses

Employment law — an update, London. August 1. Fee: BIM members and collective subscribers *£103.50. Non-members* £120.75. Details from Conference Dept., BIM, Management House, Cottingham Road, Corby, Northants NN17 1TT. Tel: 05363 4222.

IMS database appreciation, Staffs. June 25-26. Fee: £130. Details from Course Administration, Compower Training School, Compower Limited, Cannock, Staffs WS11 3HZ. Tel: 054-35 2511.

Tax planning for small businesses including partnerships, London. July 18. Fee: £105 plus VAT. Details from the Courses Department, Certified Accountants' Educational Trust, PO Box 244, London WC2A 3EE. Tel: 01-242 6855, Ext. 848. Telex 24381.

Practical Project Management, *London.* July 2-6. *Fee:* £510 plus VAT. Details from Pete Yeo, Publicity Consultant, BIS Applied Systems Ltd, York House, 199 Westminster Bridge Road, London SE1 7UT. Tel: 01-633 0866.

Advanced sales management, Brussels. July 9-13. Fee: Non-members BFr 64,000; Members (AMA/1) BFr 58,000. Details from the Management Centre Europe, rue Caroly 15, B-1040 Brussels. Tel: 02 219 03 09. Telex 21.917.

The senior executive programme, Kent. July 15-27. Fee: £1,500 plus VAT. Details from John Davies, Client Services Director, Sundridge Park Management Centre, Bromley, Kent BR1 3TP. Tel: 01-460 8585.

Designing and using application forms for graduate pre-selection, Uxbridge. July 2. Fee: £135. Details from The Secretary, Management Programme, Brunel University, Uxbridge, Middlesex UB8 3PH. Tel 0895 56461 (ext 215).

Business modelling with mini and microcomputers, Brussels. August 22-23. Fee: Non-members BFr 48,000; Members (AMA/I) BFr 43,000. Details from Management Centre Europe, rue Caroly 15, B-1040 Brussels, Belgium. Tel: 32/2/516.19.11. Telex: 21.917 mce b.

THE ARTS

Animals of the City/ICA

Michael Coveney

One of the peculiar things that has happened in the British performing arts over the last few years is that the impulse to renew and reflect popular taste has resulted in events of decreasing popularity and non-existent taste.

Animals of the City at the ICA is the latest work of Mike Figgis, formerly of the People Show and a minor darling of the out-dated *avant garde* circuit on account of two shows—*Redheugh* and *Slow Fade*—which, I am ashamed to admit, I missed.

Mr Figgis here proposes himself as a maestro, an MC, an orchestrator, between the modes of still photography, 35 mm film, live jazz, sculpted stage action in the reminiscent vein of Robert Wilson, and confidential dialogue with an audience. He also throws in a totally inadequate response to the Chandleresque *film noir* genre of cultist mystification.

None of this is done well enough to be acceptable, let alone enjoyable. The scene is purportedly New York, and yet nothing in the evening reveals an acquaintance either serious or appreciative of that great city. Mr Figgis, an amiable character in his way, has the brass neck to address the audience by way of an overture on the subject of Manhattan architecture. We then close in on a scene of domestic disharmony, flash back to an aerial view of the city dominated by yellow cabs, and some devastatingly naive and unfunny comment about Mr Otis and his elevators.

The contained scenario concerns the return to the metropolis of an old opera singer, played by Jess Walters, to the scene of a grand affair with the beautifully Pre-Raphaelite Catherine Raffaeli. The show's publicity claims all sorts of insights on the nature of contemporary big city alienation. The intellectual naivety of a show like this resides in its ignorance of 50 years' literature on the subject of the alien metropolitan, at a much more intense level, from Kafka and Brecht onwards.

Its chief fault, of course, is the purely theatrical one of failing to bind experience and commentary, film and theatre, music and gesture, into an homogeneous artistic statement. If some kind of new theatre is to come of synthesising art forms, the process of synthesis must be more seriously and imaginatively undertaken than on this occasion. Mr Figgis leaves his musicians, his screen, his projector and his actors, wandering unattached in a disorganised no-man's-land.

One bright spot is the stage left design by Jacques Gabel of 86 metal mini-skyscrapers to represent New York, dominated by a scalloped likeness of the Chrysler building. Steve Whitson's lighting magically transforms this location from time to time — the lighting is both exterior and interior, wonderfully conceived and executed.

This is the show chosen to represent British theatre at the Théâtre of Nations next month in Nancy, France. In a festival the show might not appear to be quite as bad as it is. If only, though, we could send what we really believe in: the RSC's *Cyrano*, the National's *Venice Preserv'd*, anything from Glasgow Citizens, Cliff Hanger . . . Today's avant garde, alas, is yesterday's news.

Alastair Muir

Catherine Raffaeli

Aida

David Murray

The new Royal Opera *Aida*, sponsored by NatWest and unveiled at Covent Garden on Saturday, boasts Jean-Pierre Ponnelle as designer and (presumably as an afterthought) producer, too. It is very much a designer's production, visually imposing while fixing tight constraints upon the dramatic action. The Royal Opera will find it useful; though it keeps the stagehands and electricians busy, international stars can be shunted through it season after season with minimal rehearsal — they need only to stand and deliver, with such appropriate gestures as may occur to them on the spot. The international cast who are inaugurating the affair gesticulate a lot, and otherwise have only to step smartly out of the way of descending scrims, or to wait to be mechanically "revealed" like clock-cuckoos.

Almost every scene is dominated by a huge pharaonic stone head, with a stylised beard that goes up and down like a portcullis barring an inner chamber, and sometimes flanked by curving stone staircases: let us call him Ozymandias. He is all the temples, and the monument of every precinct; once he is turned at an angle, and for the *dénouement* his hat goes up. The King, the High Priest and finally the remorseful Amneris strike poses in his hatband. Otherwise there are scrims and backcloths, constantly shuffled, like blowups of monochrome engravings — very self-conscious and rather chic, but for the horrid painted moon and amoeboid clouds of the Nile scene. (Perhaps a sub-assistant's work? "But Jean-Pierre, it's supposed to be the Nile in moonlight with cicadas, and we need some *atmosphere*!" "All right, all right — *you* do it.")

In short, this is very nearly a staged concert performance. Even "Celeste Aida," minutes after the start, is sung before a drop cloth; and Katia Ricciarelli's "Ritorna vincitor" too (sadly undersung), against heavy competition by the stage-crew behind. The Triumph boasts no processions, no trophies, but only boy gymnasts to enact the Ethopian defeat. (The same thrifty device in the Coliseum *Rienzi* at least had an ironic point.) The Nile scene alone is played in the Old Egyptian naturalistic manner; the double death-by-suffocation transpires without risk of claustrophobia, in the limitless space before Ozymandias.

Clearly a premium is placed on the musical side; and the international principals almost recover the cost. Sadly, Miss Ricciarelli's soprano is ill-found in the role of the heroine—her sincere but pallid "Ritorna vincitor" (boorishly hooted by someone in the audience, which cannot have encouraged her) was followed by ever more frayed singing in the latter half. Her heartfelt miming contrasted with her indifferent words, most of her vowels converging upon one indeterminate sound. The pellucid Italian of her Radamès, Luciano Pavarotti, made a cruel comparison—but anyway there is no arguing with Pavarotti. The superb voice seizes one by the throat (even with apologies for a *virus*), it *is musically* and generously used, to plain dramatic ends; and his modest acting doesn't reach beyond what he can do with dignity.

The Amneris is Stefania Toczyska, a strong, interesting mezzo with a plangent timbre, who does her reeling and writhing with a will, but also suggests that in a production less committed to external show she could display a feeling creature. As Ramfis, the young Georgian bass Paata Burchuladze easily fulfilled the expectations roused by his recent Warwick Square debut: rich, liquid tone, beautifully focussed, and enough authority to convey haughty malevolence without pulling faces. Majestic declamation by Sean Rea as the King; a decently haunting lilt in Marie *McLaughlin's High Priestess*.

Ingvar Wixell's Amonasro is fierce, sonorous and exact, a distinguished portrayal; his rhythmic grip points up what is missing in Zubin Mehta's conducting, which is just that. Mehta's reading is professionally smooth and swift (and kind to his singers), efficiently executed, and yet limp of pulse. The Prelude floated coldly and the Grand March (trumpets regularly jumping the up beat) had no snap.

Leonard Burt

Sean Rea (Il Re), Stefania Toczyska (Amneris) and Luciano Pavarotti (Radames)

Architecture

Lighting the lamp in Europe

Colin Amery reports on a new German museum that is in the forefront of the architectural debate . . .

If architects are feeling a bit chastened after inviting the Prince of Wales to dinner and having to listen to his well-aimed strictures, they should take a short trip to Germany. In Frankfurt they can see the most exciting new museum devoted to contemporary architecture that has just opened and in Stuttgart they can admire the splendours of the new Staatsgalerie which is designed by James Stirling—the most interesting *British* architect around. I will write about Stuttgart in a future article because it needs to be discussed at some length.

The new *Deutsches Architekturmuseum* stands on the Shaumankai by the River Main in a pleasing, large early 20th century classical house that has been brilliantly converted into a museum. The museum is under the direction of Professor Dr Heinrich Klotz who told me that the museum's task is "to illustrate the arguments of modern day architecture."

The conversion of the old building itself illustrates this theme that lies behind the whole venture. The architect is Oswald Mathias Ungers, a German architect in his 50s who has since 1970 practised in Germany and also taught at Cornell University, U.S. While retaining the façades of the old classical house, he has added a pergola on three sides and a large new space at the rear. In the main part of the old house he has built a completely new museum which rises up to a great skylight over his own post-modernism temple.

By banishing the stairs and lift to the rear of the old house, Ungers frees the space for galleries on several floors and a large lecture theatre on the lowest level. His extension at the rear of the house occupies the garden and has been carefully designed to retain the trees and to utilise the back garden walls as outdoor sculpture courts that are viewed from indoors.

The first impression the visitor gains from the interior is one of immaculate whiteness and order based on the highly visible grid of squares that is the basis of the design. The entrance hall and side pergolas have glazed roofs and red and white floors, the galleries are entirely white.

The design everywhere implies classicism but it is a kind of cut-out classicism, simple and without any detailed decoration. On the top floor a small white house with pediments sits under the skylight. Here the smooth white blocky classicism does not quite work. The lack of entasis makes the verticals appear crooked—this is revealed as just a leaning towards classicism. The best space is the new garden gallery which has a beautifully coved roof with implied coffering and a series of small spaces which are ideal for the display of drawings.

The first exhibition is called *Die Revision der Moderne Post-moderne Architektur 1960-1980* and is part of the story of the gradual intriguing transformation of the old modern movement into the struggling baby that labours under the name of post-modernism. It is an impressive display of European and American architectural work of the last 20 years and includes an imposing litany of names. Mario Botta, Frank Gehry, Michael Graves, Hans Hollein, Leon and Rob Krier, Charles Moore, Richard Meier, Superstudio, SITE Inc., Thomas Gordon Smith, Tigerman, Venturi—they are all well represented with models and drawings. It is an amazing fact that 90 per cent of the work on show is from the museum's permanent collection.

This collection has been acquired by diligent purchasing over the past four years. What is sad, but inevitable, is that there are no architects representing England. James Stirling belongs here as a seminal influence on architectural thinking—but perhaps he is planning his own museum. The resistance to the new architectural thinking in England is a product of the late adoption of European modernism here—the architectural establishment now represents the rearguard, as the Prince of Wales was able to point out so clearly. His speech can only serve to heighten the development of the necessary debate about architecture which is still resisted by a profession that can do no wrong.

Another thing that would help the debate in England would be the establishment forthwith in some rooms at the Royal Academy of a regular series of small exhibitions about the art of architecture. I have been urging this for years but the tender professionals have always resisted the idea. Frankfurt leads the way with this brilliant small new museum. The architectural debate will now always have to acknowledge Frankfurt—the museum is more in tune with the present than the Museum of Modern Art in New York, or the only other rival, the Canadian Centre for Architecture.

Future exhibitions will examine "High Tech" and the idea of the skyscraper as well as displays that tackle the environmental problems of a local region. The opening of the new Frankfurt museum is a major event in the world of architecture; it is concerned with the future of the art and already understands the public desire for beauty. It has a fine new building in a city that, like so many cities in Britain, has been almost swamped by the tide of post-war rebuilding. The lamp of civilised architecture has been lit again in Europe.

Book Review

Ronald Crichton

Glyndebourne glory

Glyndebourne: a celebration edited by John Higgins. Cape, illustrated, £12.50. 172 pages

Confounding prophets of woe, Glyndebourne serenely continues after 50 years, with longer festivals of sold-out performances, many productions televised, visits to the Proms and a touring company out and about in the autumn. Except for the tours, there is still no official subsidy, yet John Christie's half-mad venture of 1934 is probably on firmer ground than many nervous recipients of official funds. Behind the formidable facade of English dottiness Christie possessed an equally formidable mixture of business sense and vision. He also had a flair for choosing collaborators and seeing that they got on with their jobs. His personality benevolently permeates the festival to this day.

John Higgins has chosen his collaborators with suitable astuteness, concentrating on distinguished persons who know Glyndebourne from various inside angles, leaving the picnics, the evening dress and the ha-ha in the background. Peter Hall writes on the Mozart operas, Raymond Leppard on Monteverdi and Cavalli, John Pritchard on Rossini. Roy Strong notes the changes of taste reflected (not always very promptly) in design. In some cases what they don't say is more revealing than what they do. Leppard reveals that the beauties of *Monteverdi* reduced some leading singers to tears but does not say much about his way of making Baroque opera welcome to a non-specialist public—surely they are musico-historically more aware than their parents and would like to know more.

Pritchard's remarks about the German way of doing Rossini are well worth attention and his Charter for Opera Conductors, directed mainly at insensitive and unmusical producers, deserves wide and prominent *dissemination. He is good* on the admirable Vittorio Gui but otherwise doesn't really say much about Rossini *at Glyndebourne*. He draws the discreetest of veils over *La pietra del paragone*—a 1964 production which did not please every admirer of Rossini. Isaiah Berlin brings positive assurance to fading memories that the pre-war Mozart performances were indeed generally as good as history now asserts.

Most illuminating of all are the articles on what might seem to be the dustier subjects —Asa Briggs on the audience and the financial organisation, and Gillian Widdicombe on the "extensions," meaning the recordings (in the course of which she rightly praises the soprano Ina Souez, who would otherwise have been omitted), TV and the tours at home and abroad. Unhackneyed illustrations in colour and black-and-white include one of Janet Baker as Orfeo, looking like Mick Jagger—and why not?

Swayne's Symphony/Elizabeth Hall

Andrew Clements

The English Chamber Orchestra's South Bank programmes may sometimes seem to confine themselves to a narrow, conservative repertory. But as a chronology included in the booklet for Friday's Elizabeth Hall concert demonstrated, the orchestra has been a quiet and consistent supporter of new music, or at least of a particular area of new music. Its latest commission elicited a symphony for small orchestra from Giles Swayne; the first performance was conducted by Stephen Barlow.

Swayne's introductory note gave little away—"My belief *is that if a piece of music has* to be explained, it is a flop." The symphony is his first concert work since *Cry*, for unaccompanied chorus, which was commissioned by the BBC and made such a popular impact at the Proms in 1982. The vein of accessibility which Swayne struck then is continued here. The symphony is firmly, defiantly, diatonic; indeed it never strays from A minor throughout its 25 minutes. A pedal tonic note is almost always to be heard, while the orchestra—a standard, "classical" one with piccolo and contra-bassoon doublings—carves out sequences of repeated scalic patterns. Sometimes the processes throw out a more fully fledged melodic idea — a jazzy break for the flute, cavortings in syncopation for the *bassoons*, a *19th-century* bravura outburst for the solo violin.

It *is* artfully done, but ultimately trivial. Swayne does reveal that he chose the title "symphony" for its neutrality: it gives nothing away, it requires no explanation. But neutral or not, conferring such a label on a work brings with it the whole baggage of expectations, some of them purely historical, some of them functional. Swayne's symphony does not begin to offer the kind of contrast, thematic and harmonic, that a work of that name implies, and that any orchestral piece of that length, whatever it is called, should provide. To many ears no doubt such unequivocal reassertion of tonal values will be most welcome. But having heard it once, how many *of those will* want to repeat the experience? What further rewards, one wonders, could a second hearing possibly bring?

Nash Ensemble/Wigmore Hall

Dominic Gill

The Nash were not on their most sparkling form for a characteristically wide-ranging concert of 20th-century music on Saturday night. Nor did either of the two new works of their programme, by the Hungarian Zsolt Durko and by Tim Souster, offer much to sparkle about. Durko's new *Impromptus in F* for solo flute and five instruments with percussion was decent and dull. Its variation form offered some potentially interesting contrasts of style: drily lyrical Boulezian sonorities (flute and tam-tam, xylophone and string harmonics) set against darker, lusher Bartokian harmonies, as well as a lighter polytonal manner peculiar to the composer himself. Judith Pearce gave the solo part commandingly; but one arrived, after 18 minutes, without any sense at all of having made a journey.

Tim Souster calls the genre of his *Le Souvenir de Maurice Ravel* "surrealistic pastiche"—an idea taken from another composer as a starting point "leads on into musical situations" which that composer could never have imagined. This is really no more than an unnecessarily elaborate way of describing one of music's commonest occurrences: one composer's debt to, or influence upon, another. Souster's short homage for seven instruments has a certain charm, but not one grain of Ravel's virtuosity; its effect is amiable but slight.

The Nash ended their programme with Shostakovich's E minor piano trio op.47; and began it with a nicely gauged account of the incisive, unmistakably Stravinskian *Three Pieces for String Quartet*, as well as a more stiff-jointed performance by Marcia Cravford and Ian Brown of Ravel's violin sonata. Ravel loved his violin sonata dearly, but the critics didn't: that may have been because it was too often played then, as it is today, correctly but without flair.

Renoir exhibition

The Arts Council is organising a major exhibition of paintings by Renoir at the Hayward Gallery on London's South Bank from January 30 to April 21 next year.

About 80 of Renoir's finest pictures have been selected for showing.

Bach Piano Competition planned for 1985

In Toronto between May 1-12, 1985, will be held the International Bach Piano Competition, with a first prize of $15,000, from the Continental Bank of Canada, for the winner. It is claimed to be the richest prize in an international music competition.

Applicants in the UK will be required to provide a 45 minute cassette tape, and more information can be obtained from Ontario House, London, SW1. In addition the Canada Council is to award the Glenn Gould prize, worth $50,000 every three years, starting in 1987, to a person who has made a *distinctive contribution* to music and communications.

In June 1985 auditions will be held outside of the U.S. for the Carnegie Hall International American Music Competition, with a top prize valued at $75,000, including a cash award of $10,000 and career promotion aid. The competition is open to pianists, and more information can be obtained from Willa Rouder at 881 7th Avenue, New York, NY 10019.

Barclays backs WNO 'Rigoletto' with £60,000

Welsh National Opera's new production of *Rigoletto*, which is to receive its premiere in Cardiff in May 1985, is to be sponsored by Barclays Bank. The £60,000 sponsorship was announced in Cardiff by Mr Henry Lambert, Barclays' UK chairman, who said that the sponsorship was the largest ever undertaken by Barclays in Wales.

The WNO *Rigoletto* receives its first performance at the New Theatre Cardiff on May 16. Donald Maxwell will play the title role.

Arts Guide June 1–7

Music

LONDON

Soviet Emigre Orchestra conducted by Lazar Gosman. Mozart, Shostakovich/Gosman, Purcell/Britten and Tchaikovsky. Queen Elizabeth Hall (Tue). (9283191).

Claudio Arrau, piano. Beethoven, Schubert, Chopin, Liszt, Debussy and Brahms. Royal Festival Hall (Wed). (9283191).

Martino Tirimo, piano. Queen Elizabeth Hall (Thur). Schubert, Beethoven, Debussy and Liszt.

Ronnie Scott's, Frith Street: Superjazz Big Band. (4390747).

PARIS

Christa Ludwig, Paul-Emile Deiber recital, Eric Werba, piano: Schubert, Schumann, Liszt, Wolf, Brahms, Goethe's poems as Lieder (Mon). Théâtre de l'Athenée (7426727).

Cracow Philharmonic conducted by Krzysztof Penderecki, Konstansky Kjlka, violin: Penderecki (Mon). TMP-Châtelet (2334444).

Catherine Thison, piano: Schumann, Beethoven, Chopin (Mon). Salle Gaveau (5632030).

Ensemble Orchestral de Paris with Philippe Entremont as conductor and soloist, Philip Bride, violin, Wolfgang Schulz, flute: Mozart, Mendelssohn, Schubert (Tue). Théâtre des Champs Elysées (7234777).

Orchestre National de France conducted by Seiji Ozawa with Radio France Choir: Debussy, Ravel (Tue). TMP-Châtelet (2334444).

Chantal Stiglieni, piano: Bach, Schubert, Bartok (Tue). Salle Gaveau (5610630).

Paul Kuentz Orchestra and choir, Maurice André, trumpet: Albinoni, Haydn, Corelli (Tue). Saint-Séverin Church (6338761).

Arcoea, Choir Festival 1984 (Tue, Wed). Salle Pleyel (5610630).

Perlemuter, piano: Chopin, Ravel (Wed). Théâtre des Champs Elysées (7234777).

Nouvel Orchestre Philharmonique conducted by Friedemann Layer, Malcolm Frager, piano: Mozart, Schubert (Thur). Salle Gaveau (5632030).

Prague Philharmonic Orchestra and choir conducted by Jiri Belohlavek: Dvorak Requiem (Thur). TMP-Châtelet (2334444).

CHICAGO

Chicago Symphony (Orchestra Hall): Klaus Tennstedt conducting, Edith Peinemann violin. Weber, Mendelssohn, Strauss. (Thur). (4358122).

VIENNA

Teresa Berganza with Juan Antonio Alvarez Parejo, piano. (Mon) Musikverein. (658190).

Vienna Symphony Orchestra conducted by Gunther Wand. Bruckner's Fifth Symphony (Wed). Musikverein.

ZURICH

Tonhalle: University of Michigan Symphony Band. Strauss, Kabalewski, Hindemith, Nixon, Holst and Grainger (Tue); Tonhalle Orchestra conducted by Christoph Eschenbach. Beethoven (Wed).

Le Nozze di Figaro/Glyndebourne

David Murray

The sudden access of good weather on Wednesday, and the cunning ploy of laying on an eclipse for the dinner interval, didn't altogether explain the success of Glyndebourne's first *Figaro* evening in this 50th anniversary summer. Roger Williams has revived the 1973 production by Peter Hall most thoughtfully and effectively, with a cast partly new, partly familiar from the 1981 revival. John Bury's designs make their points well, granted the usual uncertainty about what, exactly, is going on in the nocturnal garden; and in the pit Bernard Haitink presides over the London Philharmonic with unerring musico-dramatic sense. What he achieves is so apt, and so deceptively easy, that special effort is needed to notice it.

Too little space to comment on solo arias, the familiar plums of Mozart's opera, beyond reporting that Marcellina and Don Basilio are awarded their Act 4 numbers, delivered energetically by Mimi Lerner and rather charmingly by Ugo Benelli. Nothing will persuade us that the opera requires them. None of the others went less than well (with some promise of really splendid performances as the run settles in)—but this is a dramatic *Figaro* above all.

In this version, the joke ends where it customarily begins. When we find Claudio Desderi's Figaro cheerfully sizing up the nuptial bedroom, he seems a blunt, uncomplicated peasant; five minutes later, when Gianna Rolandi's Susanna has convinced him—graphically—that the new arrangement will lubricate the Count's unwelcome advances, he is all avenging fury. Deadly serious and implacable, he dominates everything that follows. The rest of Act I is hardly funny, but with a cast of strongly drawn characters it is gripping, and the performance continues in that vein. The situations are amusing only for bystanders, anxious and desperate for the participants.

Miss Rolandi's Susanna is no clever soubrette, but a comfortable milkmaid sort (with a touch of rustic slut), and she develops winningly as things proceed. Richard Stilwell's Count is a hungover matinee-idol, languid and stately, pained and baffled by the indignities he suffers; intelligently consistent, Stilwell buys no easy sympathy for the character. Isobel Buchanan's Countess begins in tears and vapours, and is touchingly grateful for any kindness: there is a hint of the Jessica of *Soap* about her. Faith Esham repeats her proud, foolish, ambiguous Cherubino—her mixed feelings about military enlistment during Figaro's "Non più andrai" are delectably rendered.

There is a bright, sensitive Barbarina from Anne Dawson. Miss Lerner's Marcellina is not only dignified and rather formidable, but subtle; she and Arthur Korn as Bartolo (unusually imposing in his Act I music) take an affecting pleasure in the discovery that Figaro is their mislaid son. By way of anniversary celebration, the imperishable Hugues Cuenod gives us a needlepoint vignette of the Notary, and Federico Davià makes a ripely cantankerous Gardener, neither of them exaggerating a single point.

If one's made to view the characters so much in psychological terms, it is not only because their visible dramatic interplay is made so vivid. The special musical glory of this production is the ensembles, full-voiced and sharply differentiated to an astonishing degree; Haitink has prepared them searchingly. From 13 July there will be a half-new cast conducted by Gustav Kuhn, with the interesting Miss Esham moving up to the role of Susanna. The general spirit should continue.

Little Me/Prince of Wales

Michael Coveney

Russ Abbot is an amiable, popular television comedian who remains curiously untested by the seven-character lead role Bruce Forsyth played 20 years ago. I had always supposed the role to be a quick-change one but, apart from a rather leaden sequence set in the First World War, where our hero comes in and out of a door alternating as an amnesiac French cabaret singer and an all-American fighter pilot hero, nothing too frenetic is demanded.

Despite a book full of cherishable one-liners by Neil Simon (a miserly banker admits that "Before I was born squirrels never used to hide their nuts"), Mr Abbot is never actually as funny as he is on the box as either that carrot-headed Scottish football hooligan or the ageing Teddy Boy.

When he turns up as a myopic chump, Fred Poitrine, the dreadfully predictable punchline concerns the acquisition by busty Belle (Sheila White) of his surname. He then resorts to sympathetic charm in the show's most famous number "Real Live Girl," which in choral reprise also manages to sound like the best.

The first problem with *Little Me* is that what promises to be a picaresque tale of Belle's search for wealth, culture and social position in order to make herself eligible for Noble Eggleston quickly runs out of narrative tension. The evening then staggers along as a series of disconnected sketches, some of which after the interval are downright embarrassing.

To music by Cy Coleman and lyrics by Carolyn Leigh and some below par re-heated choreography by Bob Fosse, the older Belle in the lushly confidential shape of Lynda Baron recalls her life story from a seedy bar stool. Belle Schlumpfert, an Illinois Cinderella, captivates the rich Noble and ventures across the tracks. Each time they make contact, the orchestra swells, a running gag that is soon smitten with cramp. Tony Walton's luminescently outlined settings promise a hint of style to which Val May's broken-backed direction soon puts a stop.

Belle wins the heart of the miserly banker and it is a pleasure to see Mr Abbot loosen up in the warm orange glow of dancing humanity in the lively ensemble number "Deep Down Inside." He has less success as the cabaret artist, mainly because of a misjudged mimed tap routine. Belle has gone through vaudeville and is selling cigarettes, temporarily diverted by a snake-like sub Fosse routine from Tudor Davies's seductive gangster.

"Things couldn't look blacker from the bottom of an armpit" confides Miss Baron. Belle meets up with Noble again on a sinking ship, ingeniously capsized by the designer, and goes on to meet Mr Abbot disguised first as a lonely old tycoon, Randolph Worst, and then as a *Teutonic dictatorial* film director Otto Schnitzler.

By this time Mr Simon's book has keeled over with the ship and quietly expired. Things are only made worse by a thumpingly banal Slavonic dance number for an expiring mittel-European monarch. The title song, not a good one, is gamely performed by the bubbling Sheila White, Miss Baron and Belle's Momma, Valerie Walsh. I awoke with a start to imagine I was watching some terrible joke about *Gypsy* and/or *Jean Seberg*.

As an undemanding, blowzy entertainment, *Little Me* will no doubt have its admirers. But musicals like this really have to be done well if they are not to look their age. Audiences for musicals, for better or worse, are now used to much higher technical and presentational standards in the wake of Sondheim, Hal Prince and Lloyd Webber. To see a justly popular TV comedian in an unpersuasive revival of an imperfect show might not, these days, be enough.

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Bad cruise compromise

THE DUTCH cabinet's shaky compromise on the future deployment of cruise weapons in the Netherlands is unsatisfactory from the point of view of the alliance. It delays further not only deployment but even a final Dutch decision on deployment itself. But it does, at least, recognise that full deployment of the 48 cruises allocated to bases in the Netherlands will have to go ahead if the superpowers cannot reach an agreement on limiting the installation in Europe of intermediate-range nuclear weapons, and if the Soviet Union continues to build up its own arsenal of SS-20s.

Formally, the Dutch cabinet has not departed from the so-called twin-track policy of Nato to bring cruise and Pershing II nuclear launchers to Europe in reply to the threat constituted by the SS-20s. The Nato policy is to deploy and to seek talks to limit the number of such weapons in Europe on both the Nato and the Warsaw Pact sides.

The communique on the ministerial meeting of Nato, where the policy was adopted, merely described the two tracks as "parallel and complementary." But the logic was that Nato must deploy in the hope that its determination would bring the Russians to the negotiating table. The twin-track policy is turned on its head if one says, as the Dutch seem to be doing, that full deployment need go ahead only if there is no East-West agreement to limit it.

From the angle of Dutch internal politics things may look a bit different. The compromise reached on Friday in Mr Ruud van Lubbers's coalition cabinet may very well be the best that could be achieved. Only the Liberals, the junior party in the coalition, are firmly pro-deployment. The Christian Democrats, the Prime Minister's own party, are split. An unqualified decision to go ahead with cruise might have brought down the Government.

Inspiration

In the parliament, forces seem to be fairly evenly divided. If the cabinet were to fall, an anti-cruise coalition led by Labour, the largest party in parliament, might come in. If a cabinet crisis were to lead on to elections, public disquiet about the cruise weapon could easily pave the way for a similar, Labour-led coalition.

Why have the Netherlands proved such fertile ground for a peace movement whose inspiration ranges from sincere concern for peace and the environment to muddle-headed anti-Americanism and an idyllic view of what East-West relations could be? Not so very long ago Dutch society was a byword for a somewhat stodgy conservatism. Those days are over.

The affluence of the 1960s and 1970s, based on rich finds of natural gas, transformed that society. The often-rebellious voice of youth became ever more important. Conventions were flouted. Next, recession and high unemployment deepened criticism of the established order of things.

Neutrality

There is another, older strand. Historically the churches have had an especially weighty role in public opinion and public affairs. It used to be a voice for conservative values. Now the churches have changed. Churchmen are among the most active supporters of the peace movement.

Historically, too, the Netherlands have tried to avoid being drawn into the quarrels of bigger powers. Dutch faith in neutrality was dreadfully betrayed in 1940. But memories of World War Two are fading. Attitudes are returning to the classic mood of the small European countries which hope against hope that they can keep out of the conflicts of their bigger neighbours.

Against that instinctive reaction, Dutch leaders have usually thought of political integration within the European Economic Community as their best hope of not being swamped by the bigger members. It is not too late for them to ask themselves whether they have acted in the best interests of that strategy by distancing themselves from Britain, France, West Germany and Italy in so important a matter as the intermediate range nuclear weapons.

The dangers of the stand adopted by the Lubbers cabinet are manifold. For a start the policy adopted may be self-defeating. Dutch hesitations will be read as a sign in Moscow that the peace movement may yet make progress in Europe. That will not encourage the Russians to return to the negotiating table which they left abruptly last November.

Ill effects are possible within Nato as well. Britain, Italy and West Germany may be relied upon to follow through their decisions to deploy cruise and Pershing II. But the political difficulties facing the Government in Belgium, neighbour of the Netherlands, may now be increased.

The twin track decision can work only if the alliance is firm in its resolve without being pugnacious. The best hope of arriving at meaningful talks on arms reduction still rests on conducting relations with Moscow in a moderate tone but standing firm on substance.

Parliament is not enough

THERE HAVE been several recent reminders of the limits of Parliamentary sovereignty in this country and of the way Britain is bound by international as well as domestic law. For example, when WPC Fletcher was killed outside the Libyan Embassy in St James's Square in April the authorities could not take all the retaliatory action they might have liked because they were bound by the Vienna Convention on diplomatic relations.

Some people may welcome this while others deplore it. More likely some people will welcome it in the cases that suit them and deplore it in those that do not. The fact is, however, that domestic and international law need to be brought increasingly into line. If countries subscribe to international conventions, they must be enforceable at home as well as abroad.

That really is what the case of the complainants against the British Aircraft and Shipbuilding Act of 1977 is all about. The complainants went to the European Commission of Human Rights on the grounds that they believed that the compensation paid to them for their nationalised assets was inadequate.

The Conservative Party, when in opposition, believed that too, and many of its leaders believe it still, now that they are members of the Government. Sir Keith Joseph admitted as much in a written Parliamentary answer when he was Industry Secretary in 1980.

Unavoidable

Yet times have moved on. At no stage did the Conservatives in opposition promise to repeal the legislation on the compensation terms if and when they came to office. There was just a chance that the business might have been unravelled by the privatisation and return to owners of the warship-building yards at the beginning of Mrs Thatcher's first administration. Yet Sir Keith decided that circumstances had changed too much for that to be possible.

The Tories have since found themselves obliged to defend before the European Commission what they condemned so strongly when they were on the other side of the House. This is an embarrassing position, but unavoidable. Nationalisation, including the method of compensation, was after all approved by parliament. And it would set all kinds of precedents if the Government were to offer additional sums of money so long after the event.

On the two main points at issue the commission has come down very largely on the Government's side. It found that the article in the European Convention about the entitlement to the peaceful enjoyment of possessions was never meant to apply to the taking of the property of a state's own nationals: it was aimed more at protecting property held abroad from foreign expropriation. And, as far as compensation is obligatory, it concluded that the sums paid by the British authorities were not wholly inadequate at least within the terms of the convention.

There was enough room for doubt, however, for the commission to pass the case to the European Court, where it will start again *de novo* sometime next year.

All that will run its course. Yet if the Government is embarrassed, it ought to be thinking about how to prevent a recurrence of such cases in future. Here the convention offers some guidance. Article 6 says that everyone is "entitled to a fair and public hearing within a reasonable time by an independent and impartial tribunal established by law." Article 13 says that those whose rights have been violated "shall have an effective remedy before a national authority."

In the narrow sense, such rights of appeal were possible under the Aircraft and Shipbuilding Act, but only just. The convention has not yet been enshrined in domestic law, so the full safeguards are not there. If the Government does not want to introduce its own legislation to that end, it could perfectly well give right of passage to a Private Members' Bill.

BRITAIN'S MERCHANT BANKS

Reputations at stake in the City revolution

By David Lascelles, Banking Correspondent

IF LONDON merchant bankers pride themselves on living by their wits, they have an acute need of them now in the revolution taking place in the City.

Whether it be privately-held Morgan Grenfell thinking about going public, or S. G. Warburg paying £41m for a stake in a jobbing firm, or even Kleinwort Benson reaching across the Atlantic to buy a U.S. bond dealer, merchant bankers see great opportunity in the City upheaval and are prepared to risk reputations and—for them—large sums of money to seize it.

Today many merchant bankers believe they could end as the key figures in the new scheme, though there is also the fear that unless they act quickly somebody else—the new financial conglomerates or the Americans and Japanese—will get there first. Even as they take over stockbrokers and jobbers, the independent banks know that others with grander ideas could gobble them up.

The theory is that as the barriers crumble between the functions of issuing securities, making markets in them, and broking them (played traditionally by merchant banks, jobbers and stockbrokers) the winners are likely to be institutions with a strong capital base and a broad range of skills which can do all three at once: the "integrated house" as it has been dubbed, modelled on a Wall Street-style investment bank.

Merchant banks are well-suited to combine these roles because they already have multiple skills and a fair amount of capital; some, like Warburg or Samuel Montagu, also run integrated operations in the Eurobond markets, so there is experience to build on.

UK AND U.S. BANKS COMPARED

Equity capital

U.S. INVESTMENT BANKS	
Merrill Lynch	$1,888m
Salomon Bros	$1,181m
Dean Witter	$961m
Shearson/Amex*	$710m
UK MERCHANT BANKS†	
Kleinwort	£215m
Warburg	£140m
Schroders	£125m
Hill Samuel	£123m
Morgan Grenfell	£116m

* Excludes Lehman Bros. † Sources: for U.S., Institutional Investor April '84. For UK, disclosed equity capital in latest balance sheet.

too. But there are big risks ahead, as well as opportunities. Faced with the certainty of much increased competition in such traditional activities as corporate finance, mergers and acquisitions, and investment management, the question for most of them has not been whether to join the opposition, but how.

Their views could hardly vary more. "There is no 'right' way," says a Warburg director whose deal with Akroyd and Smithers last October was a pace-setter. "There are as many answers as there are players."

Even so, most merchant banks have set their sights on a similar target: being able to issue and deal in securities in the U.S. and the Far East as well as in the UK. This will allow them to raise finance for corporate clients in the world's biggest markets and make money by "arbitraging" or exploiting the differences between them.

These plans range at one extreme from Mr Jacob Rothschild's conglomerate approach—his Charterhouse J. Rothschild group offers a grand array of financial services, although plans for a full-scale merger with Hambros Life have been abandoned—to the Lazards in London, Paris and New York. They have decided to stay small and concentrate on arranging deals and giving advice rather than trading as principals, though they want to form a tighter alliance to tackle the world market.

For the integrated houses, how the London market evolves will be crucial. In the equity market, the easing of Stock Exchange membership rules and the move towards dual capacity — the fusing of the roles of principal (stockjobbers) and agents (stockbrokers) — will give some merchant banks a much broader role in the capital-raising business than they have had in the past.

In the gilt-edged market, the Bank of England seems to favour U.S.-style primary dealers who would be responsible for buying and distributing Treasury issues but would, in return, have a privileged relationship with the central bank. Mr Gordon Pepper, the senior partner of W. Greenwell and Co, the stockbroking firm that has linked with Montagu, maintains that a successful integrated house will have to be one of these primary dealers.

For several merchant banks like Warburg, Morgan Grenfell and County Bank, the subsidiary of NatWest, the vital first step is to develop market-making skills by buying a stake in a jobbing firm, partly because they are in short supply, but also because they think that the ability to make markets is the key to a successful securities business.

Others, like Montagu and Hambros, have bought into stockbrokers because they feel they can handle the market-making side, but need "distribution"—the *ability to sell* securities to investors. Others still, like Hill Samuel, have held their fire, preferring, according to Christopher Castleman, chief executive, to "watch and wait," and not be rushed into buying while the excitement has pushed acquisition prices sky-high.

Ideally, many banks would like to ally themselves with both a stockbroker and a jobber, but that is a luxury only for those with a rich uncle, like Barclays Merchant Bank which is to be tied in with de Zoete & Bevan, the stockbroker, and Wedd Durlacher, the jobber, at a probable cost of over £100m.

As for geographical reach, UK merchant banks historically have been quite strong in the Far East, particularly Hong Kong, and many have joined the slow-moving queue for a trading licence in Tokyo. Tackling the U.S. will be harder in many ways. You have to be tuned into Wall Street directly. It's not good enough to watch it through a Reuter's screen," says Mr Win Bischoff, chief executive of Schroder, which has a bank in New York but, because of U.S. bank law, can only do limited securities business through it.

Kleinwort Benson, the biggest merchant bank, grasped the bull by the horns a couple of months ago by buying ACLI Government securities, a Wall Street primary dealer, for $27.3m (£19m), a move which many others would emulate if they could. (Kleinwort has yet to make a move in London, and is taking careful stock, according to Mr Michael Hawkes, the chief executive.)

Bankers admit that their U.S. ambitions must be limited. "It would be lunacy to compete head-on in the U.S. market," says Mr Castleman of Hill Samuel. The purpose of a U.S. presence would be to make the contacts, trade in a modest way and forge the global link.

Despite the well-rounded reasons bankers give for what they have or have not done, many admit privately to agonising uncertainty about it all. "There's a lot of rubbish being talked about the rationale for these deals," said one chief executive. "Many of them were just cobbled together."

Proving that they can work is only one of the tests these deals will have to pass. Can merchant banks, for instance, really afford such grand designs? Morgan Grenfell's hint that it may go public next year is a sign of the strain the changing market-place is putting on its resources: Morgan needs a broad capital base, even if it means going to the Stock Exchange and sacrificing some of its privacy.

Banks have the option, of course, of occupying a specialist niche rather than going for an all-round business, like Robert Fleming. But sheer size counts for a lot internationally. Mr Bischoff at Schroder said: "We shall need a tremendous amount of capital to be a player in the global market."

Mr Hawkes of Kleinwort points out that merchant banks, whatever their ambitions in stocks and bonds, are still supervised by the Bank of England. That means there is a limit to how far they can "gear up" their capital by taking on securities business.

Costs could be specially heavy if, as expected, the Bank rules that banks which go into securities must have stronger capital ratios as a buffer against risk. According to Mr Hawkes, this will leave the merchant banks with a tough choice: raising more capital, or paring back their banking business to release capital.

Banks may also have to isolate their securities business into separately capitalised subsidiaries, which means the capital would be locked in and could not easily be redeployed in lean times.

Another test is conflict of interest. An integrated house could find itself not just on two but five sides of a deal at once: as issuer of shares, broker, market maker, fund manager and investment adviser. The Bank of England, which is studying this question, found no fewer than 13 potential conflicts of interest in one recent (unnamed) City merger.

Although merchant banks already have so-called Chinese walls to separate departments that could profit from each other's information (corporate finance and fund management, for example), the potential for conflict in an integrated house is so much larger that something more formal may be needed. Some banks have considered hiving off parts of their business—like fund management—to reduce the risk of conflict.

"People must know who it is they are talking to when they deal with us," Mr Castleman said.

Through their trade group, the Accepting Houses Committee, the merchant banks said in response to the recent review of investor protection by Professor Jim Gower that they favoured a self-regulatory body for their fund management business (their banking activities would continue to be regulated by the Bank of England and their new broking and jobbing interests by the Stock Exchange). But several would be ready to go further and welcomed a tough regulatory overlord for the securities business as a whole.

"Personally, I would not mind a mini Securities and Exchange Commission," one said. "Whatever it is, it must have teeth," said another.

A third test is whether merchant banks can handle the transformation into investment banks, which requires a much keener dealing mentality. "We're pretty good punters in gilts, but that's quite different from making markets in them," Mr Bischoff said. Another executive said he abandoned any attempt at merging with a jobbing firm after discovering "they're quite different people from us."

Wall Street's message is fairly encouraging, though. The biggest investment banks there have all found capital to grow quite fast—and in some cases remain private. Except for the occasional scandal, the U.S.'s fiercely competitive markets and a vigilant SEC have kept conflicts of interest to a minimum.

The all-round investment bank is plainly an idea that works, which may partly explain why no Wall Street investment market bank has made a bid for a London one in the great shakeout. "Why should we? We can already do most of the things the British firms are trying to do," said the head of one U.S. firm's London office.

HOW STRATEGIES DIFFER

BUYING the skills: S. G. Warburg was one of the first to make a move with its acquisition of a 29.9 per cent stake in Akroyd & Smithers, the leading jobbing firm, which it may increase when Stock Exchange rules permit. Although the price (£41m) looked high to some people, Warburg believes that the ability to make markets is the key to the "integrated house" of the future, and knew that jobbing skills were in short supply. Warburg and Akroyd have just launched a dealing operation in New York.

Finding a niche: Robert Fleming has one of the most developed broker-dealer businesses in London, but it is highly specialised, concentrating on Japanese convertible bonds of which Fleming is the largest dealer in the world. "If we're ahead of many people, we don't think we're particularly clever. That's the way it developed," said Mr Nicholas Sibley, the managing director. Fleming found its niche through Jardine Fleming, its joint Far East venture with Jardines of Hong Kong, which has one of the few licences granted to foreign stockbrokers in Tokyo.

"Rolling their own": Schroders is building up its broker-dealer team based on the firm's stockbroking operation in the Far East. It currently has 46 people and is planning rapid expansion. Mr Win Bischoff, chief executive, says the strategy is less capital-intensive and means "you can plan it as you go along."

Holding fire: Hill Samuel has been cautious about forging alliances "because the target is still moving," says Christopher Castleman, chief executive. But the group may be on the point of clinching a deal in the next few days.

Ringing changes in Japan

A company called Kyoto Ceramic sounds as though it ought to employ a half-dozen, venerably-bearded, water-colour artists, willow-brush painting geisha scenes on to porcelain plates along a temple-graced riverbank.

Perhaps the image barrier was one reason why Kyoto Ceramic changed its name a couple of years ago to Kyocera Corporation—a more suitably mechanistic name for the company which controls 70 per cent of the world market for ceramic integrated circuit packages, produces Yashica cameras, and as a minor sideline, grinds out £2m worth of false teeth and artificial bones a year.

Now, Kazuo Inamori, Kyocera's president and a former industrial scientist, is pushing the company he founded in 1959 while in his twenties into the van of Japan's forthcoming telecommunications revolution, leading a consortium of 25 companies which plans to challenge Nippon Telegraph and Telephone's monopoly as a "common carrier."

When Inamori formulated his Daini-Denden (number two phone company) project in March this year, his chief public supporters were the handful of Japan's so-called "new media" businessmen, including Akio Morita of Sony, Jiro Ushio of Ushio electronics, and Makoto Iida, of Secom.

All were men of substance, but the project was regarded as something of an upstart venture. Inamori faced not only NTT, but the immobile ranks of Japan's business giants—the "zaibatsu" trading houses, banks and industrial behemoths on which he had stolen a march.

By forming a consortium, Inamori first overturned the conventional wisdom that only the very largest of Japanese corporations could even think of challenging NTT. Kyocera, for instance, had sales in 1983-1984 of US$1bn compared with NTT's sales in 1982-83 of more than US$18bn.

And by launching his venture in the midst of the debate about how the private sector can profit from NTT's deregulation, Inamori has over the past three months won the support of shareholders whose chips could scarcely be bluer—Mitsubishi, Sumitomo, Suntory and Nomura Securities. Some of the Daini-Denden shareholders have shelved more tentative plans for similar projects of their own.

Competition for NTT business is only just starting. NTT, itself, does not intend to give in without a fight, and is investing massively in new technology. But, however well Daini-Denden does in practice, Inamori can safely be credited with demonstrating that, even in futurology-obsessed Japan, a small but well-placed shove may be needed to get big things moving forward.

Men and Matters

"Why not make the NCB and NUM meet at Wembley then settle it by best of five penalty kicks?"

Goldman,s way

In the four years that Roy Smith has been head of the Goldman Sachs subsidiary in London, the firm has doubled in size to 150 staff and become the New York investment bank's second largest branch office, after Chicago.

It has also quietly flexed its muscles without entering the bidding for any of the London brokers. Last year it was involved in transactions for 28 leading British companies, including ICI, Barclays, Fisons and Midland Bank, while advising Sotheby's on its defence against an unwelcome bid from the U.S.

Smith returns to New York this summer to help supervise Goldman's international activities, and will be replaced by a New York partner, Robert Conway—but there will be no change of policy.

Goldman's London growth has been determined more by the internationalisation of securities markets than the plans to liberalise the City stock market, says Conway. The London firm has become "a little Goldman Sachs" offering the full range of the New York services on this side of the Atlantic.

As for the future, Conway says that Goldman's "natural propensity would be to build up from within rather than go out and acquire someone." The firm has the expertise to act both as dealer and broker, and adequate capital to take part in trading.

But Goldman, regarded as the classiest of the New York investment banks, and one of the few to make the big league without losing its partnership status, is fully aware of the intense competition developing in London. On his 8.30 morning jogs through Hyde Park, says 40-year-old Conway, "I get a little concerned about the number of sweat shirts bearing the names of my competitors."

Job creation

How to become an entrepreneur, by Nolan Bushnell, founder of Atari (quoted by Everett M. Rogers and Judith K. Larsen in "Silicon Valley Fever").

"A guy wakes up in the morning and says: 'I'm going to be an entrepreneur'. So he goes into work and walks up to the best technologist in the company where he is working, and whispers: 'Would you like to join my company? Ten o'clock Saturday, my place. And bring some donuts'.

"Then he goes to the best finance guy he knows, and says: 'Bring some coffee'. Then you get a marketing guy. And if you are the right entrepreneur, you have three or four of the best minds in the business.

"Ten o'clock Saturday rolls around. They say: 'Hey, what is our company going to do?' You say: 'Build left-hand widgets'. Another hour and you've got a business plan roughed out. The finance guy says he knows where you can get some money.

"So what have you done? You've not provided the coffee. You've not provided the donuts. You've not provided the ideas. You've been the entrepreneur. You made it all happen."

Good taste

One particular piece of enterprise was not rewarded when President Reagan visited his ancestral home of Ballyporeen yesterday.

In the centre of the village a large advertisement had been erected for Bushmills whiskey. The liquor is universally known as "Bush," and the advert read: "Bush—the President's choice."

White House officials were not amused at this play on the name of Vice-President George Bush, and they demanded that the advert should be removed.

In the end a compromise was agreed. The P in President was painted over to give the less offensive and probably more accurate message: "Bush—the resident's choice."

Observer

FOREIGN AFFAIRS

One summit really matters

By Ian Davidson

THIS week will go down in the annals as one of the truly wonderful weeks in Ronald Reagan's first term as President of the United States. After the celebrations for the 35th anniversary of the North Atlantic Treaty Organisation, after the kitsch in Ballyporeen, and after the ballyhoo for the 40th anniversary of D-Day on the beaches of Normandy, the leaders of the seven major western nations will stage a profoundly harmonious summit in London.

Naturally, nothing will be achieved by the summit, and cynics will wonder why they bother. No matter. Tha final communique will ooze unctuous self-congratulation and the successful fight against inflation and on the emerging economic recovery, especially in America. President Reagan will, as usual, radiate oblivious serenity. As for the others, amid the whirring of the television cameras and the general brou-haha, you will scarcely hear the grinding of their teeth.

When these summits were first launched, a decade or so ago, at the instance of President Giscard d'Estaing of France and *Chancellor Helmut Schmidt of* Germany, the idea was that they should be informal gatherings to help world leaders grapple together with the problems of managing the world economy.

The record suggests that in practice these annual rituals have fallen into two fairly distinct groups. On a couple of occasions, at most, they may have enabled governments to take, in an international negotiating context, decisions for which they were bracing themselves in any case, but which domestic pressures could have made more difficult. More often they achieved strictly nothing. *This week's meeting will* conform to the second, more normal pattern.

There are, of course, a number of major issues affecting the health of the international economic system which might deserve informal discussion, or even negotiation, at this week's London summit, and most of them are closely related, to each other, and to the economic policies of the current U.S. administration. There is the international debt burden of the developing countries, whose management and rescheduling looks increasingly precarious. The precariousness of this debt problem, coupled with the legacy of other ill-considered lending practices in the past, has raised more than a tremor of doubt over the health of soma of the world's biggest hanks, and possibly over tha health of the international banking system as a whole.

Both these problems are being exacerbated by the rise in U.S. interest rates, which is helping to drive up interest rates in other industrialised countries and threatening their economic recovery. If the recent rise in interest rates has been driven partly by market anxieties, it is also the result of the structural tension between the anti-inflation policies of the Fed and the expansionary effect of the massive U.S. budget deficit.

The case for some negotiated adjustment in U.S. policies would not seem to be in doubt. Yet the response of the U.S. administration to the chorus of complaints from ebroad has been either to deny that there are any problems or else to deny that it bears any responsibility for these problems. For rather a long time administration spokesmen have been denying that high U.S. interest rates could possibly be jeopardising the economic prospects of other countries, whether industrialised or developing. Now that a number of developing countries are beginning to threaten that they may no longer be able or willing to service their increasingly expensive debts, this line of argument has worn rather thin. But the administration continues to maintain that the level of interest rates has nothing to do with the size of the U.S. budget deficit.

No doubt President Reagan will this week reassure the other western leaders with a stirring account of the efforts being made by the White House and Congress to bring down the deficit in future. But everyone knows that the timing of these efforts has been determined exclusively by domestic pressures and the imperatives of the presidential election campaign. If the administration is less complacent about the impact of high interest rates, it is not so much ont of concern for the well-being of other national economies as ont of anxiety for the U.S. banking system.

The European leaders at this week's meeting will naturally refrain from making any kind of fuss. No useful purpose can be achieved by this week's discussions, but no useful purpose can be achieved, either, by rocking the boat.

Altiero Spinelli: long-standing federalist

But if the European leaders are likely to take things easy et this week's economic summit, it is also because they know that they have a more testing and a more important rendezvous in three weeks' time, et the European Community summit at Fontainebleau. This week's meeting may not make much difference to anything, but that ona may make rather a lot of difference to everyone.

Ostensibly, tha Fontainebleau meeting will be dominated by the old squabble over Britain's excessive contributions to the European Community budget. In reality it will be confronting more fundamental questions: do the institutions, treaties and policies satisfactorily meet the national and common interests of the member states; is it possible to get more satisfactory *arrangements; and if so, will* this happen by strengthening or weakening the contractual relationship between the member states?

At this stage, there is little new to say about the British budget problem. No serious negotiation is likely to resuma until after the Euro-elections in tha middle of this month. Everyona knows that tha gap between Britain and the rest is rather small; everyone knows there must be some give and take; no govarnment wants to he the first to move, and the Commission seems unwilling to accept its responsibilities.

The situation is therefore ripe for a game of chicken, the outcome of which could be deeply damaging. If Mrs Thatcher's obstinacy exactly matches the obstinacy of the nine at Fontainebleau, British officials are beginning to warn, tha situation could become extremely unpleasant.

Yet it is rather hard to see how the nine could retaliate against the UK so long as they continue to respect the existing treaties and institutions. If they cannot composa their differences with Mrs Thatcher, they cannot secure a legal increase in the size of the Community budget; if they cannot increase the budget, they will have either to see an axe laid at Community spending policies, or to make up the difference from national budgets. Both options spell a serious weakening of Community principles enshrined in treaty law.

Now these are not the terms in which President Mitterrand, for one, is talking, and it is he, as current president of the Community institutions, who will dominate the proceedings at Fontainebleau. On the contrary, his recent speech before the European Parliament was a wide-ranging appeal for *more* European integration, based on the Community's fundamental law, the Treaty of Rome, for better decision-making by more majority voting, for a strengthening of the political dimension of Europe, and for an extension of the Community into new policy areas. Moreover, for a Frenchman he gave a surprisingly warm endorsement to the draft Treaty for European Union (if not in its details at least in its "inspiration"), which was drawn np and passed by the European Parliament earlier this year.

This last reference has rekindled interest in a text which was virtually ignored when it was voted by tha Strasbourg assembly in February, and some of the comment, in Britain at least, has been both hostile and ill-informed. As one would expect from its chief sponsor, Altiero Spinelli, who is a long-standing federalist, the text is unashamedly more federalist *in aspiration* than the present arrangements, but not all thet much more; it is not, contrary to what is sometimes suggested, a blue-print for a totalitarian state which would take eway tha birth-right of every blue-blooded Englishman.

It is not difficult, nor entirely implausible to dismiss both the draft treaty, and M Mitterrand's speech, and tha many past declarations by the member states that their objective is a more perfect European Union, as windy rhetoric.

It is also not difficult for the British Government to argue that the first priority should be to implement those provisions of the existing Treaty of Rome which have been blocked for a quarter of a century, rather than dream np new grandoise schemes. The advantage of getting rid of the national obstacles to the free flow of goods and services, so as to create a truly Common Market, is that this is already a treaty obligation, it would inevitably serve the common interests of all the member states—and it would not make any demands on the Community hudget.

The trouble is that this pragmatic approach entirely misses the point. Of course there is a large measure of windy rhetoric in tha aspirations for a more integrated Europe; there is also reason to question whether it will be easier to get there from here by drafting a treaty text, than by focusing on specific policy areas, like defence and security, where progress is both possible and necessary. On balance, it may be more sensible for policy needs to determine institutions than the other way round.

But tha error made by British pragmatists, is to suppose that the continental rhetoric is only rhetoric. There may be e large gap between dogma and practice, but it is a profound mistake to under-rate tha force of the dogma, or to pretend, as some British diplomats do, that the French do not mean it and will never mean it. Superficially, this British cynicism may seem rather profound, but deep down it is pretty shallow.

The real gap between Britain and the nine is not measured in a few hundred million ECUs, nor even in Mrs Thatcher's book-keeping approach to the Common Market, but in the failure of this government (and all its predecessors apart, perheps, from that of Edward Heath) to comprehend the importance on the continent of the political symbolism of Europe, let alona to sympathise with it.

To make the maintenance of Britain's veto rights in the Council of Ministers (ie, its capacity to stop anything being decided) the main plank in the Conservative Party's Euro-election platform, at a time when even the French are arguing for more majority voting, is a very curious signal. And to say to the Germans: "Wa want you to pay more to the Community hndget so that wa can pay less and we want yon to open np your insurance market to British competition, but no, we do not want anything to do with the kind of Europe you say you want," may seem logical in Downing Street, but it is surely a very strange negotiating posture.

Lombard

A new look at 'monetary base'

By Samuel Brittan

"HOW CAN the Bank of England control the money supply?" I am frequently asked by correspondents. Not baving time to write article-length replies to each reader, I normally reply fairly hriefly: "Mainly by means of interest rates."

At this stage most correspondents either retire in disbelief or allege in sloping handwriting the existence of e world-wide conspiracy to subvert the currency, thereby letting me off the hook. There is, however, a very good return question which could he posed, namely: "How does the Bank control interest rates?"

The operational answer is that this is by the rates at which it supplies reserves to the money market in times of shortage. But one must then hope that no one will ask: "Supposing that there is no sbortage? Can the Bank create one?" The technicians could probably answer that qnestion; but what then does one make of the frequent official claims whan interest rates are rising thar they are "being pushed np the *market" and that it would* be misguided, difficult or even impossible to resist the pressures?

If we are to believe that the Government cannot control interest rates, it cannot under current procednres control the money supply either: and what then becomes of its central strategy?

The technical monetarists would agree that it is misguided to try to control interest rates. Their stock response is that central henks can and should control the reserves held with them by the commercial banks, and leava interest rates to tha market.

As there is some relation between banks' reserves et the Bank of England and the rate at which they choose to expand their assets and liabilities, these reserves are often known as "high-powered money." Tha Bank could datermine the amount of high-powered money by its own market operations; and this method of infinencing the money supply is known as "monetary base control."

Tha valid elements in the Bank of England's passionate objection to monetary base control can be summarised simply, without too much institutional detail, in one proposition. The ratio of the money supply, however defined (still less Nominal GDP) to hank reserves of high-powered money is too volatile for target purposes. To put it in jargon: the "base multiplier is unstable" and would be even under different institutional arrangements.

It was mainly for this reason that I did not join in the abortive campaign for monetary base control which at ona time even interested the Prime *Minister. I was not prepared to* ignore the fact that in the Great Depression the U.S. money supply plunged even when the monetary hase was held fairly stable.

In the UK context, banks' "operational deposits" at the Bank of England amounted on the last count to less than £200m. Even if "till money" is thrown in for good measure, the total of high-powered money is still only £1.4bn. This represents as a ratio only 12 per cent of the so-called "wide monetary hase" or Mo which the Bank of England does (reluctantly) target and less than 1½ per cent of the more meaningful broader monetary aggregates. Unexpected changes in these ratios could have catastrophic multiplier effects if policy assumed that they were stable.

The intellectual breakthrough required ts to separate the idee of monetary base control from that of fixed target growth rates. Let the Bank of England operate on reserves of high-powered-money, but let its objective for this total (whether announced or not) vary as much as necessary in the light of the demand for reserves and any other factors considered relevant, including exchanga rate movements. This would approximate to the Swiss form of monetary base control or what the U.S. Fed ectually does after bad experience with more rigid versions.

If such a system were introduced into the UK, money supply policy would be more transparent and less mystical. The Bank would be regulating something that is within its control hut without commitments inappropriate to a changing financial system.

In the Budget the Chancellor announced he would target monetary base hut not control it directly. I am suggesting the opposite: thet he should control it, hnt not target it.

Letters to the Editor

Japan's trade pattern

From the Deputy Minister, Japanese Ministry of Foreign Affairs

Sir,—In your article of May 22 entitled "U.S. set to buy $60bn of developing nations' goods," it was reported that Ambassador Brock, the U.S. Trade Representative, in a seminar in St Gallen, "singled out Japan for discriminatory trade practices" by saying that it was only taking 10 per cent, while the U.S. was importing half, of developing countries' exports in manufactured goods.

I can hardly believe that someone as knowledgeable as Mr Brock in trade matters would have made such an assertion, but as far as it appeared in your article, the implied reasoning perhaps deserves some comments.

A country's trade structure is largely determined by how much natural resources and energy that country is endowed with, and what its industrial structures are. Small land and the scarcity in natural resources compel Japan to stake its economic livelihood on importing large quantities of not only energy and foodstuffs (the magnitude could be measured by the single fact that Japan's import of U.S. agricultural exports exceeds the totality of such U.S. export to the USSR, Eastern Europe, the UK and West Germany altogether) but also industrial raw materials. This character naturally influences the share of manufactured goods in Japan's imports.

It is true that the absolute amount of Japanese imports of manufactured goods from developing countries is much smaller than that of the U.S.: $6bn vs $38bn in 1982. But this not only reflects the difference in the scale of Japanese and U.S. economies (Japan's GNP is approximately 40 per cent of the U.S.'s GNP), but the difference in import structures. A better index of how much consideration is given to the import from developing countries would be the share of the import of manufactured goods from developing countries in total manufactured goods imports. In this respect, there are no great differences between Japan (22.5 per cent) and the U.S. (25.3 per cent) in 1982.

Similarly, the annual average rates of increase in imports of manufactured goods from developing countries between 1977 and 1982 show no substantial differences: 15.5 per cent in Japan and 18.7 per cent in the U.S.

To attribute the difference in numbers to Japan's discriminatory trade practices against developing countries has absolutely no ground. Japan recently decided to increase the imports of industrial products, from developing countries, by raising the ceiling under the generalized system of preferences (GSP) by 35 per cent. Further, unlike the U.S. and E.C., Japan has neither taken any restrictive measures (including the so-called grey-area measures) against steel, textiles and other manufactured goods of export interest to developing countries, nor has it yet imposed any countervailing duty and anti-dumping duty.

As regards direct investments to developing countries, it would be worth pointing out that Japan substantially increased its share in the total direct investment from industrialised countries to developing countries from 7 per cent in 1971 to 17 per cent in 1981.

Our common aim of helping expand the exports of developing countries and easing their debt burden would be best achieved if we worked together on the basis of accurate facts and correct appreciations of each other's policies.

Moriyuki Motono.
Ministry of Foreign Affairs, Tokyo, Japan.

A problem for a manager

From Mr C. Thompson.

Sir,—In all the debates and discussion papers on the accountancy profession's proposed rules for current cost accounting, the emphasis has been on the accountants and auditors role on the implication of recommendations. Very few of those involved in discussing the subject and consider the problems and issues which would confront the manager with current cost accounting.

The overriding requirement to maintain the substance of a business, and the temptation is to maintain short term distributable products at the expense of the economic future of the company.

After the preparation of financial statements, under the historical cost convention is the concept of continuity, knowingly that in the absence of evidence to the contrary, that business will continue indefinitely into the future. Stocks of raw materials used in production will be replaced and new fixed assets will be purchased, upon the expiry of the old ones. It is this requirement for replacement that makes the historical cost convention of accounting so misleading in times of inflation. The fact is that the preparation of audit and balance sheets will require a more intimate knowledge of the business processing involved that accountants normally have.

Colin Thompson.
65, Shakespeare Drive, Shirley, Solihull.

A credibility gap

From Mrs C. Horsfield

Sir,—The coming elections to the European Parliament give us an opportunity to focus our attention on the Community. John Wyles (May 29) suggests that we should take Pieter Dankert's advice and vote because the parliament fills a "*democratic gap.*"

Each elector belongs to a vast constituency incorporating 500,000 assorted people whose lowest common denominator is their national roots. The parliament to which we are sending a representative has little power and even a polyglot must communicate there with the help of teams of interpreters. Misunderstandings must abound. At present we are protected in the Council of Ministers by the national veto but it is said that the veto makes the Community unworkable and that it must go. The draft treaty establishing the European Union recommends just that. Either the Community is unworkable or we hava to sacrifice our national interests on every issue which would be the effect of replacing the veto by a system of majority voting.

So far as I can tell the parliament would retain its power to dismiss the Commission. The president would have appointed the Commission although I cannot identify the source of his appointees. The president himself would have been appointed by the Council of the Union whose members would have been appointees of national governments. If the parliament were to exercise its right to dismiss the Commission the same president would then be empowered to appoint another Commission. It is hard to see in all this welter of appointments how a vote for some shadowy figure to a nebulous parliament can fill a "democratic gap."

For me at least it creates a "credibility gap."

(Mrs) Charlotte Horsfield.
24 Liverpool Road, Kingston Hill, Surrey.

Pension transfer values

From Mr A. Smallbone

Sir,—Your leading article on pensions (May 25) suggests that different scheme actuaries use differing assumptions: it is worse than that: the same actuary will use double standards.

If an employee aged X with Y years of service, on a pensionable salary of Z, is leaving a pension scheme he may be offered a transfer-out value perhaps half that which the same actuary will require from a replacement employee (also aged X, to be paid Z and with Y years of service with an identical scheme) who asks to be granted Y "added years" as a joiner.

Yet the second method does no more than quantify the amount that needs already to have been accumulated within any properly-funded scheme with respect to an existing member aged X, paid Z, with Y years service, and is therefore the correct starting point for out-transfers too.

The difference between the two represents the "profits" which, in an era of inflation, the employer can make out of declaring people redundant. Every time a long-serving employee is unloaded, a final salary scheme will tend to become over-funded, substantially reducing the amount the employer need contribute to meet obligations to remaining staff and leaving more for paying increased dividends to shareholders.

Alan F. Smallbone.
30, Temple Fortune Lane, NW1.

America's banking structure

From the Director, Centre for Banking and International Finance, City University Business School.

Sir,—What is wrong with American banks? It is necessary to pose the question in this way because what we observe in international banking today are solvency and liquidity problems of individual American banks indeed the largest, multinational, money centre banks at that. Such problems are only an *effect of an underlying root* problem.

Think of the American banking system as a tree exposed to the wind. It has a large foliage (assets), covering the world. It has a strong trunk (its human resources); but it has weak roots (its deposit base). American banks are unable to collect deposits over the whole of the U.S. from individual (small) depositors. Such individual deposits must be repackaged in some way, either through domestic or international channels, before the money centre banks can obtain them to finance their loans. Of course, deposits up to $100,000 are insured so that the small depositor is not worried about losing his money. This is good news for the thousands of small local banks which would not be able to survive otherwise. It is not very good news, however, either for the large depositor (domestic or foreign) or for the money centre bank whose liabilities these deposits are.

As long as financial winds are not blowing strong, the American banking system seems well balanced.

The weakness of the American banking system is revealed when a financial crisis erupts. There is an initial solvency problem of bad loans to less developed countries, domestic firms (oil, etc.) and international firms (shipping, etc.). Such bad loans mean that the shareholders of all exposed banks (American, European, Japanese, etc.) must accept lower returns from those expected. For American banks, however, the trouble does not stop there. It changes form into a liquidity one—the old-fashioned run on deposits—when large depositors lose faith. Money centre banks are particularly exposed then to both liquidity and solvency problems and become the weak link in the U.S. financial chain. Notice the absurdity of the system: a small local or regional bank is immune from liquidity problems; yet, if it withdraws deposits from a money centre bank it can bring about the collapse of such a bank.

Such instability in the deposit structure is a peculiarly American phenomenon enshrined in a morass of local, regional, state and federal legislation. It is part and parcel of American folklore, populism and mistrust of big money from New England invading other states. In this case America is stuck with systems and concepts of the last century.

Zannis Res,
Frobisher Crescent, Barbican Centre, EC2.

FINANCIAL TIMES

Monday June 4 1984

Terry Byland on Wall Street

Chemicals seek new formula

PITY the poor analyst who must cover the Wall Street chemical stocks. Since 1973, when the phrase "oil crisis" entered the international vocabulary and the cost of chemical feedstuffs rocketed, the chemical sector has fought hard in a cruel world. Chemical stock prices have appreciated only about 61 per cent since 1970, compared with a rise of about 79 per cent in the Standard and Poor's 500 stock index.

Such is fate that even last year's fall in oil prices did chemicals no good. By depressing manufactured chemical prices, it contributed to a lacklustre 15 per cent gain in earnings, barely in line with the market and well behind the makers of cars, computers and rockets.

Nor has the trend changed in the first quarter of this year with the chemical leaders lagging, even behind a drop of 8.7 per cent in the S & P, despite an impressive round of results for the opening three months. The average earnings increase for the first quarter was about 63 per cent, with extreme cases such as Dow and Monsanto jumping by 120 per cent or so.

Last week's developments in the stock and fixed interest markets could change the outlook for chemicals for the rest of this year.

The industry has been in a double bind for a long time. A strong dollar has been a problem for companies which sell about a third of their product outside the U.S. Moreover, the high interest rates which have driven the dollar up are bad news for an industry with a debt to capital ratio still above 30 per cent despite efforts to reduce it.

Even without a cut in the value of the dollar or in interest rates, Dow Chemical has much to look forward to this year. First quarter earnings of 62 cents a share were well above market expectations, and Wall Street now looks for a doubling of share earnings to $3 at the year-end.

This puts Dow on a prospective price/earnings ratio of around 11, with the share price still 26 per cent off its 12-month peak. The historic p/e is about 16 times last year's earnings.

The industry outlook for 1984 is still mixed. A sharp reduction in domestic car production, a major market for chemical products, is expected and housing sales are beginning to turn off. The big hope is for a sharp rebound in the hard-pressed farming industry. This would be good news for Monsanto, Air Products, Union Carbide and Williams Cos.

Union Carbide and Williams Cos were two others to surprise the analysts with their earnings gains for the first quarter of the year. The Wall Street consensus is for more than doubled profits at Carbide this year, bringing a total of perhaps $6.50 a share and, once again, a hight prospective p/e of around 9, compared with an historic 28 times on 1983 profits.

There is a gap between Wall Street's perceptions of the outlook for profits and for stock prices. Mr Paul Christopherson, of Bear Stearns, is one who doubts whether these strongly expanding p/e ratios will bring strong gains in stocks.

One reason for the cautious view of the analysts is the uncomfortable association of the industry with such imponderables as oil prices, interest rates and the dollar. The outlook for all three is uncertain, to say the least.

Other, deeper, factors include the image of the industry as mature and even stagnant, facing all the problems of tightening markets and growing low-cost competitors from abroad that have undermined the steel producers.

This view seems to be borne out by the drive to diversify by chemical company managements, ranging from the well-publicised Bendix saga at Allied Corporation or the Conoco battle by Du Pont, to Olin's interests in skis and house-building to the ethical drug divisions at Dow, military and aerospace activities at Hercules and Astroturf at Monsanto.

INDIA LAUNCHES SECURITY OPERATION TO COUNTER SIKH EXTREMISTS

Gandhi imposes Punjab curfew

BY JOHN ELLIOTT IN NEW DELHI

THE INDIAN Army clamped tight control on the northern state of Punjab last night, imposing a 36-hour curfew and closing the border with the neighbouring state of Haryana.

The carrying of firearms was forbidden and all bus and train services were suspended. Publication in the Punjab of all news about the security situation was banned and foreigners' access to the area was severely limited.

The army moved into key trouble spots and took up positions about 200 yards from the Golden Temple headquarters in Amritsar of the Sikh extremists.

The security operation, announced on Saturday night, is the biggest clampdown on a region of India since Mrs Indira Gandhi, the Prime Minister, introduced a nation-wide emergency in 1975 which eventually led to her being voted out of office in 1977.

This time, however, Mrs Gandhi has widespread political support for the action she ordered to try to end two years of growing Sikh terrorism. More than 270 people have been killed in the past six months.

Messages of approval were issued by opposition parties and other groups yesterday, although Sant Jarnail Singh Bhindranwale, the Sikh extremist leader, was reported to have said that the Government had "declared war on the Sikhs."

The Sikhs' main political party, the moderate Akali Dal, has called a demonstration for next Sunday.

More than 20 people were killed in shootings and other incidents yesterday. There were nearly 20 deaths in the previous two days.

Most of the security measures have been imposed for two months. The Government hopes that in that time the strength of the main terrorists will be broken by the army under the command of Lt Gen Ranjit Dayal, Western Command chief-of-staff, who has been appointed the state's new security advisor.

"We have got to get the terrorists off the backs of the moderate Sikh leaders and get control of the rural areas. Then we can do a negotiated settlement on the Punjab," one of Mrs Gandhi's closest confidants said.

The use of the army to restore control and the restriction of foreigners' access – a rare event in India, apart from long-standing restrictions in the North-eastern states around Assam – were moves that Mrs Gandhi never wanted to have to announce.

She wanted to be able to stand back from the Punjab crisis, hoping it would solve itself, as often happens in India's sectarian and communal clashes once enough blood has been spilt and anger spent.

Mrs Gandhi still hopes to avoid sending the army into the Sikh terrorists' Golden Temple stronghold. She fears a backlash from devout rural Sikhs to the invasion of their shrine.

Time and again in the past months the terrorists have won. They have assassinated key political figures and others just as ministers started to proclaim the situation was coming under control. Twice they have halted peace initiatives through outbreaks of violence that made peace talks impossible.

Yesterday the Akali Dal party was due to launch a new *morcha* – non-co-operation programme – which would have inflamed the violence.

The quite separate Hindu-Muslim violence in Bombay and the surrounding state of Maharashtra just over two weeks ago shocked the government into ordering instant army action there. The speed with which the army restored almost total law and order must have strengthened those of Mrs Gandhi's advisors who had been arguing for an army operation in the Punjab.

However, there are distinct differences in *the two situations*. The Maharashtra riots were a sudden flare-up of centuries-old Hindu-Muslim tensions. They were therefore suited to immediate localised army suppression which had to be implemented, backed by curfews, before they engulfed the city of Bombay, *which is facing growing* economic and communal problems.

The Sikh terrorism on the other hand has been building up for two years, marking a major escalation of years-old demands from Sikh activists for more religious recognition.

The government's task is to deal with a couple of hundred terrorists led by a hardcore of perhaps 50 or 60 who strike suddenly in different areas at other Sikhs, Hindus and special targets, such as trains.

Botha pleased with Thatcher meeting

BY QUENTIN PEEL, AFRICA EDITOR, IN LONDON

MR P.W. BOTHA, the South African Prime Minister, left Britain for Switzerland after a brief official visit on Saturday pleased with his talks with Mrs Margaret Thatcher, the first such meeting between premiers of the two countries for 23 years.

In spite of repeated British criticism of South African internal policies and a large demonstration in London, officials travelling with Mr Botha expressed their satisfaction with the outcome.

They were pleased at Mrs Thatcher's support for the moves towards detente currently taking place in southern Africa, including the withdrawal of South African troops from Angola and Pretoria's recent non-aggression pact with Mozambique.

They believe there was evidence of greater British sympathy for South Africa's insistence on a withdrawal of Cuban troops from Angola before any independence in neighbouring Namibia.

The South Africans also put in a strong plea for increased Western financial support and investment in the region, especially in Namibia during a transition to independence, which they felt received a sympathetic hearing.

The South African interpretation of the talks – which took place over five hours at Chequers, the British Prime Minister's official country residence – is somewhat at variance with the British version. UK Government officials emphasised Mrs Thatcher's strong criticism of several aspects of Mr Botha's apartheid policy.

Moreover, Mr Malcolm Rifkind, Minister of State at the British Foreign Office – who attended the talks with Sir Geoffrey Howe, the UK Foreign Secretary, and Mr Pik Botha, the South African Foreign Minister – underlined Britain's continued rejection of a direct linkage between Cuban withdrawal from Angola and South Africa granting independence to Namibia.

In a radio interview Mr Rifkind described the talks as "candid and comprehensive," involving considerable discussion of internal issues as well as Namibia and southern Africa. He said Mrs Thatcher had raised two potentially hostile points: the imprisonment of Mr Nelson Mandela, former president of the banned African National Congress (ANC) and enforced removals of black South Africans living in areas classified for whites.

Mr Rifkind said that in response to Mr Botha's explanation of the forthcoming constitutional changes in South Africa, Mrs Thatcher had maintained the need to provide political rights "of an acceptable kind for the black majority."

Mrs Thatcher rejected a South African request that the ANC office in London should be closed, saying there was no evidence that officials of the exiled nationalist movements had broken any British law.

Mr Botha flew to and from London's Heathrow Airport by helicopter and managed to avoid any direct confrontation with anti-apartheid demonstrators, although three were arrested at Chequers. An estimated 15,000 to 20,000 took part in the London march, and heard the visit denounced by Bishop Trevor Huddleston, president of the Anti-Apartheid Movement.

From Switzerland, Mr Botha will continue his European tour to West Germany, Belgium, Austria and a private visit to France.

Industry optimistic on UK inflation

BY MAX WILKINSON IN LONDON

BRITAIN'S economic recovery is set to continue at least until the end of the year without refuelling the fires of inflation, a survey of nearly 1,800 UK companies suggests today.

The Confederation of British Industry's (CBI) industrial trends survey for May brings welcome news for the UK Government after a turbulent week in the stock markets and strong upward pressure on UK interest rates.

The survey, which suggests that inflationary pressures have moderated since that early months of the year, may help the Government to resist a rise in interest rates this week.

This had been considered almost certain in the City of London until Friday when the New York and London stock markets suddenly displayed a more optimistic mood.

The British Government may also hope that the economic summit meeting starting in London on Thursday night will produce a declaration from the world leaders which could soothe the financial markets.

Optimism on this front is distinctly muted and the British authorities are likely to rely mainly on the prospects for inflation in the informal discussions on interest rate prospects which they will probably hold with UK commercial banks this week.

The CBI survey shows a sharp drop in the proportion of manufacturing companies exporting to raise their prices over the next four months.

The balance of companies saying they will raise prices was only 24 per cent, compared with the 38 per cent recorded in April and 45 per cent in January.

This "balance", which is the percentage saying they will raise prices minus the percentage expecting to lower them, has proved a reliable guide to inflationary trends.

Higher balances in the early months of this year fuelled speculation in the City of London that the economy might be "overheating."

Some stockbrokers feared that in spite of the 3m unemployed, economic expansion would put renewed pressure on prices. The CBI, however, says in its Economic Situation Report out today: "The evidence does not suggest that inflation is on an upward trend."

"Monetary growth is currently within the targets, although we are still at an early stage of the target period; there are no general signs of overheating, and companies still face competitive pressure on margins."

On the survey's results the CBI comments: "Although not too much weight should be placed on one month's result, the decline in the proportion of firms expecting to raise prices is widespread across the different sectors of industry."

It says this suggests that rises in manufacturers' selling prices could return to historically very low levels.

The survey also suggests that domestic and export order books have remained at the improved levels of recent months. Replies to the survey question on orders yielded a result which was almost the best since the present recovery began three years ago.

The continued optimism shown in the CBI surveys contrasts with the subdued official figures for manufacturing output for the first quarter of the year, issued last month.

Interest rates cliffhanger, Page 7

Singapore offers cash for sterilisation

BY CHRIS SHERWELL IN SINGAPORE

IT IS being called, rather crudely, a "cash and cut" scheme. The Singapore Government is offering large sums of money to young mothers with little or no education to be sterilised after their first or second child.

The scheme is worked out with typically Singaporean precision. The mother must be under 30. She and her husband should be citizens or permanent residents and have no 'O' level qualifications. Family income must be no more than S$1,500 ($700) per *month. If she subsequently has a* child, the money, S$10,000, must be returned – at 10 per cent compound interest.

This extraordinary scheme, announced yesterday, is part of a controversial planned parenthood policy which was begun years ago, but which in recent months has moved into areas contentious even by the standards of Singapore's rather apolitical 2.5m population.

The shift came when Mr Lee Kuan Yew, the island state's nonsense Prime Minister, voiced concern about a "lopsidedness" in procreation patterns at a National Day ceremony nine months ago. Better-educated women, he said, tended not to marry or to have only one child. Poorly educated lower-income *families were likely to have more* than two children.

This, he said flatly, would eventually mean that "levels of competence will decline, our economy will falter, the administration will suffer and society will decline."

The "Great Marriage Debate" was ignited, and few issues have been so widely or publicly discussed as the age-old "nature/nurture" question and the Government's attempts to base a policy on it.

Efforts were quickly begun to bring young graduate couples together. Computerised dating techniques were studied. Special weekend sea trips were arranged for singles, inevitably dubbed "Love Boats." Items on the subject were endlessly printed and broadcast.

Most significantly, children of graduate mothers were given preference in the highly competitive business of choosing a school. Then in the budget three months ago, they were given higher tax reliefs for their children.

Yesterday's announcement coincided with the 25th anniversary of self-government for Singapore and Mr Lee's assumption of power. A statement from his office spelt out the aim: "The present tendency for mothers in the less-educated low-income group to have three or more children must be checked."

The idea is to credit the S$10,000 payment to the mother's government savings account to be used to buy a flat. The Government has meanwhile also raised hospital fees for mothers having third children – but will waive all charges for lower class mothers if they undergo sterilisation.

THE LEX COLUMN

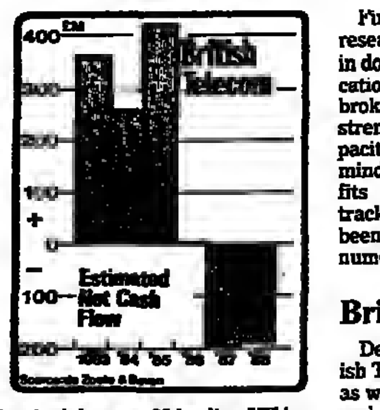
The proof of the City pudding

Negotiated brokerage commissions must appear to the Stock Exchange more and more like Pandora's Box – a gift to the membership bestowed on its chairman by the gods of Whitehall, which, once opened, has now revealed all manner of potential afflictions. Dual capacity and its various implications so far remain the principal concern, but there is another fundamental change still lurking in the box which nothing is going to restrain though its effects look as unpredictable as any – the reappraisal, that is, of the costs and real benefits of brokers' research.

The costs must be evident enough to most brokers and will become more so to their clients when commissions arrive on the bargaining table. The benefits are a different matter. Any quantifiable evidence will surely be examined hard by investing institutions faced with opportunities to unbundle research from other rendered services. A fund managed by efficient market theorists might need persuading of the reasons for paying for any research at all. Many funds, though, will meet a problem more familiar in the advertising industry. Half the City of London's research product might be deemed absolutely useless; but few if any will agree which half it is.

With happy timing, these issues have been tackled with an unprecedented statistical firepower in a working paper by Dr Elroy Dimson and Dr Paul Marsh of the London Business School. At least four of their conclusions have a direct bearing on the present debate over the City's future structure. It is reasonably clear, *pace* strict chartists everywhere, that wide access to brokers' share price forecasts can improve a fund manager's performance – albeit not to any great extent. The disparity of these forecasts adds perceptibly to the gains available by pooling them, with each other and with in-house forecasts where appropriate. More surprisingly, no statistical grounds could be found for preferring any one team of analysts over another for any sustained period of time. Lastly, commercially useful information with which to exploit the very limited inefficiencies of the UK equity market has a strikingly shorter shelf life than most analysts seem to think.

One of the City's leading investment institutions undertook four years ago to help provide the date



for the job: some 35 leading UK brokers – unaware of the project – helped it to compile over the two-year period nearly 4,200 specific share return forecasts on 206 individual equities. Dimson and Marsh have painstakingly evaluated the forecasts in the light of how the equities subsequently performed relative to the FT-A All Share index. The conclusions form a narrow criterion by which to judge the brokers' value – ignoring, for example, their humble offerings on estimated future profits or indeed any other aspect of fundamental research – but at least a broadly favourable verdict emerges. The correlation of forecasts to actual price movements looks tiny to the layman's eye: a mere 0.08 coefficient, where 1.0 would represent totally accurate forecasting. The figure is on the comfortable side of zero, however. Brokers' forecasts, in other words, were more right than wrong, to an extent which would allow a useful out-performance of the marekt over time.

Academic studies of stock market behaviour are seldom best-sellers in the City; but a case has been made here for identifying a wide pool of UK securities analysts as a good thing, not necessarily compatible with consolidating the City into fewer and bigger houses. The pooling benefits established in the paper, which boosted the 0.08 coefficient up to 0.13, reflect the independence of the City's many forecasters and carry the same message. The difficulty of identifying reliably superior forecasters over time – although at least some modest agreement is reached with the study's contemporary Continental Illinois surveys – suggests, too, that the wheat might not be so easy to sort from the chaff when it comes to buy, sell or hold recommendations.

Finally, the need to take any new research information to the market in double quick time is another indication of the potential bonus for a broker with both in-house research strengths and market-making capacity – and serves as a timely reminder, perhaps, of the actual benefits for insider traders, whose tracks in the marketplace have been growing conspicuously more numerous of late.

British Telecom

De Zoete & Bevan's study of British Telecom, published last week, is as weighty as a telephone directory and will almost certainly be treated as the standard work of reference in the months leading up to privatisation. The impressive thoroughness of the research should guarantee it a wide audience, while De Zoete's own status as a broker to the Government (nowhere mentioned in the study's 250 pages) will inevitably lend to the work a special authority.

Results from the five-year performance model which forms the core of the work are clearly subject to a host of variables. De Zoete's central assumption that total revenues will grow by 9 per cent a year on average looks plausible, given the loose shackles of the RPI-3 formula, although even a small variation in line usage or network growth would have a marked effect on profitability because of the small proportion of variable costs.

De Zoete's assessment of BT's fixed cost base may be more controversial, however. The study identifies a steep rise in the depreciation charge – under the new accounting principles – but may understate the effect of falling equipment prices in the industry. It also takes a fairly conservative view of the wage cost savings which BT management will achieve. So, if anything, De Zoete's profit projections may err on the side of caution and the 1987-88 pre-tax profit forecast of £1.73bn could turn out too low by a margin of £200m or more.

Even allowing for a wide margin of error on either side, however, BT will clearly generate enough cash to contemplate an ambitious acquisition programme. The study wisely shies away from a valuation of the whole business although, by reference to the tariff formula, it successfully knocks on the head direct comparisons between the rating of Telecom and the U.S. utilities.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	19	66	Dubrovnik	S	24	75	Malaga	S	20	68	Salzburg	C	28	82
Akrotiri	S	26	79	Faro	C	18	64	Malta	F	25	77	Seoul	S	31	88
Algiers	F	20	68	Florence	S	24	75	Manila	S	35	95	Singapore	C	22	72
Amsterdam	R	17	63	Frankfurt	F	26	79	Miami	S	26	79	Stockholm	F	15	59
Athens	F	27	81	Funchal	F	21	70	Milan	R	17	63	Strasbourg	C	21	70
Bahrain	C	35	95	Geneva	R	14	57	Moscow	S	22	72	Sydney	F	19	66
Bangkok	S	33	91	Gibraltar	F	19	66	Munich	S	27	81	Taipei	F	19	66
Barcelona	F	20	68	Guernsey	C	12	54	Nairobi	F	24	75	Tangier	C	28	82
Beirut	F	22	71	Helsinki	S	20	68	Naples	S	26	79	Tehran	–	–	–
Belgrade	S	26	79	H. Kong	S	29	84	New Delhi	S	44	111	Tel Aviv	F	26	79
Berlin	S	25	77	Innsbruck	F	23	73	New York	F	23	73	Tenerife	S	21	70
Biarritz	F	15	59	Inverness	C	14	57	Nice	R	16	61	Tokyo	C	22	72
Blackpool	S	14	57	Istanbul	F	22	72	Oporto	R	11	52	Toronto	C	22	72
Bordeaux	C	12	54	Jersey	C	10	50	Oslo	S	16	61	Tunis	R	22	72
Brussels	R	13	55	Jo'burg	F	14	57	Paris	C	14	57	Valencia	F	20	68
Budapest	F	26	79	Las Palmas	S	22	72	Prague	F	25	77	Venice	S	23	73
B. Aires	F	15	59	Lima	F	22	72	Reykjavik	C	10	50	Vienna	S	26	79
Cairo	S	30	86	Lisbon	R	13	55	Rio de J'o	S	31	88	Warsaw	F	24	75
Cape Town	F	11	52	Locarno	R	14	57	Rome	S	23	73	Zurich	F	23	73
Caracas	C	31	88	London	F	14	57								
Casablanca	–	–	–	Los Angeles	F	24	75								
Copenhagen	C	19	66	Luxembourg	C	14	57								
Corfu	S	26	79	Madrid	F	12	54								
Dublin	C	12	54	Majorca	F	20	68								

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Iran poised for Gulf offensive

Continued from Page 1

confirmation for up to 24 hours, observers noted.

Iranian newspapers have for some days now, however, been carrying reports of fresh volunteers going to the front, and yesterday President Ali Khameini met the defence minister.

The Iranian regime rejected a UN Security Council resolution calling for free navigation of the Gulf, as Mr Yoshio Hatano, the Director Feneral of the Japanese Foreign Ministry's Africa and Middle East department, arrived for talks with Tehran's Foreign Ministry.

German, U.S. trade hit

Continued from Page 1

1972 when exchange rates were fixed, German exports would have been 14.2 per cent higher and imports 8 per cent higher.

For the U.S. the impact is considerably less. Its imports would have been 3.3 per cent higher and its exports would have been 2.2 per cent higher.

The study which appears in the latest edition of the bank's quarterly bulletin estimates that German international trade was reduced by $156bn during the five-year period and U.S. trade was reduced by $37.5bn.

At its simplest level, the study says that exchange risk uncertainty *is a source of concern because currency* values partly determine the price paid or received for output and consequently affect the profits and welfare of producers and consumers.

Uncertainty about the rate of exchange could cause companies to curtail their international activities and concentrate on supplying the domestic market.

Effects of Exchange Rate Uncertainty on German and U.S. Trade: M.A. Akhtar and R. Spence Hilton, Federal Reserve Bank of New York Quarterly Review, Spring 1984.

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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday June 4 1984

INTERNATIONAL BONDS

Prices become more volatile as investors hug the sidelines

BY MARY ANN SIEGHART IN LONDON

DOLLAR BOND markets – both in the U.S. and Europe – are fluttering like feathers in a breeze. Without the weight of investor demand to underpin them, any piece of news sends prices shooting up or down.

Last Wednesday, for instance, the benchmark U.S. Treasury long bond lost more than a point in a day. On Thursday and Friday, it gained more than 2½ points. Dealers find the uncertainty difficult to handle, so they tend to follow the crowd.

This leads to much greater volatility than usual and the worse the uncertainty, the less inclined investors will be to put money in the market. But while they stay out, trading is so thin that a few sellers or buyers will move prices a long way.

The problem is not a shortage of money. Investors have plenty of funds, but in this climate, they prefer to wait for the dust to settle before investing in any instrument with a life much longer than six months. Short-term Treasury bills have been particularly popular.

Dealers, meanwhile, have not experienced great selling pressure, mainly because bondholders were taken by surprise by the extent of the upswing in yields. The ones that failed to sell early have been reluctant to take such hefty losses now. Although the book value of their positions is way below what it was in March they hope that, if they hold on, they may have the chance of recouping some of those losses.

The sharp price rally in New York on Thursday and Friday also pulled up Eurodollar bond prices. New issues, in particular, benefited. By the afternoon, the Rockefeller group's issue was at 99¼, Export-Import Bank of Japan's was at a ¾ per cent discount and Hydro-Quebec's Canadian dollar bond – despite being increased to C$75m rose to a price of 99.

But the recovery made no difference to the Bank of Scotland'a deal (the only dollar new issue of last week), which languished at a discount of about 2¾ points with no support from the lead manager, Credit Suisse First Boston.

The issue was a great piece of financing for the borrower. The coupon for the first seven years is fixed at 14¼ per cent but the bank is swapping that for floating rate funds. Then for tha last five years – if it chooses not to redeem the bonds – it will pay a floating rate of ¼ per cent over the London interbank offered rate (Libor). Even with this last bit included, the bank ends up with funds at a rate well below Libor, because the swap was so advantageous.

But investors were not so enthusiastic. The relatively high coupon was presumably designed to appeal to the retail end of the market, who are people least inclined to buy floating rate notes.

Since there is no guarantee that the notes will trade at par after seven years (the typical spread on an FRN could be higher than ¼ point by then), investors may either have to suffer a capital loss or hold a floater that they never wanted in the first place.

In West Germany, last week's four new issues were relatively well-absorbed given the hysteria in New York. But BHF-Bank was forced to cancel a bond for Sociétés de Developpement Regional because the coupon was higher than the borrower wished to pay.

The Swiss market is consolidating after several weeks of price falls. The new issue flow has slowed down but prices were unchanged on the week.

CREDITS

Argentina faces crucial month

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

THE STAGE is now set for a crucial month of international manoeuvre to find ways of solving Argentina's $43bn foreign debt problem.

Last Thursday, the U.S. Treasury agreed to give Argentina until June 15 to reach agreement with the International Monetary Fund on a programme to reduce inflation, now running at more than 520 per cent, and to cut its balance of payments deficit.

At the same time, leading creditor banks were locked in apparently inconclusive discussions in New York to find ways of helping Argentina reduce its interest payment arrears by the critical June 30 balance-sheet deadline for U.S. banks.

Unless these issues are resolved over the next few weeks, there is a risk of renewed upheaval in financial markets already destabilised by the Continental Illinois rescue and the collapse of bank share prices on Wall Street ten days ago.

Argentine officials now say emphatically that they want to reach a speedy agreement with the IMF and also to avoid causing U.S. banks more grief over the June 30 deadline. If interest arrears go back by more than 90 days by then U.S. banks will have to declare Argentine loans as non-performing. This does not mean writing them off – but it would make a major dent in their second quarter profits.

In talks with bank creditors, Argentina has offered to pay some of the interest arrears out of its own reserves, but it will not provide all the $500m needed. That means it must find a way of borrowing some more money from the banks.

This poses a major problem for the banks – under pressure from European banks in particular, all creditors are agreed that no further money can be disbursed to Argentina before it signs an IMF agreement.

In turn that means an IMF agreement is central to solving Argentina's problem. Despite Argentina's assurances to the contrary, bankers say they have not yet received much in the way of positive signals from the IMF itself. Certainly, few expect an agreement to be reached by this Wednesday as promised by Sr Adolfo Canitrot, a senior Argentine official last week.

That is why the new deadline imposed by the U.S. Treasury is so imortant. If Argentina fails to meet it, the rescue package put in place by the U.S., Mexico, Brazil, Colombia and Venezuela last March could fall apart.

The U.S. would withdraw its offer to provide bridging finance and the Latin Americans would claim repayment (through grain exports) of the $300m they advanced.

The most damaging aspect would, however, be the signal to the markets that the U.S. had lost faith in Argentina's willingness to come to terms with the IMF. Short of a formal declaration of default by Argentina, which even now seems most unlikely, that would be the worst setback since the debt crisis started. Even though the outcome is still uncertain Argentina must now be under more intense pressure than ever to reach agreement with the IMF within the next two weeks.

Elsewhere, Manufacturers Hanover is making slow but steady progress towards assembling a lead management group for Denmark's $1bn standby credit. There is a strong current of opposition in the market to the low facility fee of only 0.05 basis points offered on this deal, and besides Manufacturers itself no other U.S. banks had signed up by last Friday.

But 17 lead managers, of which seven are Japanese, had come in and just under $800m of the total sought was covered.

Manufacturers hope to have the group complete early this week but it has clearly been a struggle to piece it together – and that should be food for thought for other borrowers seeking deals on similar terms.

Spain last week launched a $500m revolving underwriting facility through Merrill Lynch, and Portugal is expected to tap the market soon.

Isveimer, the Italian regional development authority, is raising Ecu 50m over six years through a credit which bears a margin of ⅜ per cent for the first four years rising to ½ per cent thereafter. Lead managers are Bankers Trust, Banque Worms, Bank of Yokohama, County Bank and Credito Italiano.

The Electricity Generating Authority of Thailand has invited about 15 banks to bid by this Friday on a $200m general purpose loan to be guaranteed by the Thai Ministry of Finance.

Japanese banks are showing keen interest in the deal, which will be used to repay more expensive borrowings raised in 1980.

EUROYEN BONDS

Japan allows door to swing more freely

BY MARY ANN SIEGHART

JAPAN has agreed to deregulate many of its financial markets under pressure from the U.S. The details of the package emerged last week.

As far as international bond markets are concerned, the most interesting measures are those designed to free the Euroyen bond market.

From December this year more issuers will be allowed to tap the market – any borrower, whether Japanese or not, who meets the credit criteria laid down for issuing Samurai bonds will be allowed to launch Euroyen issues.

The credit criteria themselves will be loosened from April of next year, when all AA-rated borrowers and some with just a single A-rating will be permitted to issue bonds.

The bonds will be free from regulations. There will be no restriction on the size, maturity, timing, number or pricing of issues and borrowers will not be required to issue a Samurai before they can launch a Euroyen bond.

The infrastructure of the market has also been left to market forces. Lead managers of Euroyen issues will no longer have to be Japanese securities houses, and the management and underwriting groups can be composed of foreign firms.

The thorn in the flesh is still the issue of withholding tax, however. The government is not keen to lift the 20 per cent tax which it plans to levy on Euroyen bonds issued by Japanese borrowers. Unless it does, Euroyen bonds will be on a different footing from all other Eurobonds which are, almost by definition, free from withholding tax on their coupon payments.

If issuers are forced to take on the burden of the tax themselves and offer bonds with higher coupons to compensate investors they may well find the Euroyen market uncompetitive compared with its domestic counterpart.

Euroyen bonds may then only be attractive if the borrower particularly wants a longer maturity than it is allowed in the domestic market or if the yen appreciates so much thet the demand from foreign investors pushes yields down below those in Japan.

The growth area is likely in the long run to be in convertibles.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
Bank of Scotland O‡	50	1996	12	14¼	100	Kleinwort Benson CSFB	14.250
SFE †‡	50	1991	7	¼	100	Sumitomo Fin.	–
CANADIAN DOLLARS							
Hydro Quebec ‡‡	75	1991	7	14	100	Merrill Lynch	14.000
D-MARKS							
South African Post ‡	150	1991	7	8¾	100	BHF	8.375
Matsushita Elec. Co. **‡	50	1991	7	7½	100	Deutsche Bank	7.500
OKB **	100	1988	5	7¾	99½	Bay Landesbank	*
Security Pacific **	60	1988	4	7⅝	100	Commerzbank	*
SWISS FRANCS							
EIB ‡	100	1994	–	6¼	100	CS	6.250
Japan Devt. Bank ‡	100	1992	–	6	100	SBC	6.000
SWISS FRANCS							
Mazda **§	100	1989	–	2	100	UBS	*
Nichiobishin **§	20	1989	–	1¼	100	Handelsbank	*
Nitto Boseki **§	100	1989	–	2	100	Banca del Gottardo	*
Kansai Elect **‡	100	1999	–	6	99¼	UBS	6.100
Kansai Elect	100	1992	–	6¼	*	UBS	*
GUILDERS							
EIB ‡	300	1994	8	8¾	99½	Amro Bank, ABN	8.840
IADB	200	1994	10	9	99½	ABN, Amro	*
ECUs							
IBJ	40	1989	5	11¼	100	CCF	*
EIB	60	1992	8	11⅛	–	Soc Gen de Banque	*
YEN							
KDB ‡	10bn	1991	7	8	99.50	Yamaichi	8.250
IADB ‡	20bn	1996	12	7.6	100	Yamaichi	7.744

* Not yet priced. ‡ Final terms. ** Placement. § Convertible. † Floating rate note: coupon is spread over six-month Libor. ‡ Increased from C$ 50m. O Changes into floating rate note after 7 years. Note: Yields are calculated on AIBD basis.

U.S. BONDS

Successful Treasury auction allows long prices to rebound

AFTER months of gloom and a 17-point fall in government long-term bond prices, the U.S. credit markets staged a sudden and dramatic turnaround last week and by Friday evening long-term issues were more than three points up from the lows touched around lunchtime on Wednesday.

As dealers returned from their Memorial Day holiday last week there was little hint that the market was poised for for a sharp readjustment in prices.

The worries about the stability of some of the big money centre banks—those with heavy Latin American debt exposure — were only slightly less evident in the money markets, where short-term rates resumed their upward trend, and there was little sign of any let-up in the surprising buoyancy of the economy.

U.S. INTEREST RATES (%)	Week to June 1	Week to May 25
Fed funds wkly average	10.30	10.41
3-month CDs	11.30	11.30
3-month T-Bills	9.79	9.58
30-year Treasury Bond	13.54	13.68
AAA Utility	14.63	14.75
AA Industrial	14.38	15.50

Source: Salomon Brothers (estimates). In the week to May 21 M1 increased $3.3bn to $544.3bn.

On Tuesday, long-term bond prices fell by around a point and the same happened again on Wednesday morning with the yield on the Government 30-year paper at one stage touching 14 per cent. However, following rumours of a possible cut in Middle East oil prices, the market rebounded and by the end of the day it was only half a point down.

But the main turning point appears to have been Wednesday's successful Treasury auction of $6.25bn of five-year notes. Investors' appetites were wetted by an average yield of 13.93 per cent, the highest for over two years and by Friday those who had purchased the issues were showing a profit of 1¾ percentage points on their paper.

By Friday evening the bellwether, Treasury 2014, 13¼ per cent bond, was being offered at 98 to yield 13.57 per cent. This compared with a price of 96¼¼ and a yield of 13.71 the week before.

In the equity markets, which have experienced an equally sharp turnround with the Dow Jones Index bouncing by nearly 20 points on Friday, there were some who felt confident enough to predict that the last few days in May had marked a major turning point in the downward slide in U.S. share prices.

However, bond dealers who have seen a 200 basis point jump in long bond yields since mid-January, were more wary of calling the turn.

As usual the week's economic news was mixed. The 0.5 per cent rise in the leading economic indicators for April was comforting to those who have been waiting confirmation of a slowdown in the economy, as was the report of a 3.6 per cent drop in factory orders in March.

However, the "bad news" as far as the credit markets are concerned was the $3.3bn jump in M1 last week. It is now nudging the upper level of the Fed's target range. In addition, the sharp drop in U.S. unemployment in May, after two months of stability, added to fears that the hoped for slow down in the economy is not going to be as great as anticipated.

U.S. bond analysts are divided on whether the two-day fillip in prices was anything more than a long overdue technical correction following one of the sharpest falls in the market's recent history. Most agree that there was little change in the underlying factors.

Mr David G. Jones, of Aubrey Lanston, says in his latest market letter that "in view of the lingering banking and world debt problems, the most common view is that the monetary authorities will postpone for at least several weeks any potential tightening response to excessive monetary growth."

Henry Kaufman, of Salomon Brothers, describes the recent growth of the monetary aggregates as "troublesome" and says that the longer the U.S. "feels it is necessary to maintain a passive stance in deference to its broader responsibilities (as lender of last resort to a troubled banking system) the greater will be its task in reining in expansion of money and credit growth."

William Hall

Dealers hit back at Fed's capital guidelines

BY TERRY DODSWORTH IN NEW YORK

PROPOSALS TO establish capital adequacy guidelines for dealers in the U.S. government security market have run into widespread opposition from the firms involved.

At Congressional hearings last week, Goldman Sachs, Salomon Brothers, and Discount Corporation of New York, three of the leading trading houses, all submitted statements criticising the proposals made by the Federal Reserve Bank of New York, and backed by the Fed Board.

The Fed has suggested establishing uniform capital standards for dealers depending on a variety of variables, including the risk element in the securities traded, the volume of dealing and the company's financing methods.

These guidelines would test whether a firm had sufficient liquid capital to protect against setbacks in the market, and would also establish some key monitoring ratios such as assets to capital.

Under the present system, daily reports are filed with the Federal Bank of New York by the 37 primary dealers in the market. These are the only firms allowed to trade directly with the New York Bank, the organisation through which the Fed conducts its interventions in the money market.

The New York reserve bank is not proposing to change the requirements for these reporting organisations, which already have to give extensive information on their daily trading positions and financing and which are obliged to make a market in government stocks.

But it is aiming to extend the range of control over the market by persuading the reporting companies to establish, on a self-policing basis, capital guidelines for the firms they deal with themselves.

The municipal securities market, for example, has an internally monitored system of this sort which has to some extent served as a blueprint for the Federal Reserve Bank's proposals.

Since the collapse of Drysdale Government Securities and Lombard Wall two years ago, the Fed has already tightened up its surveillance procedures and introduced tighter regulations over the repurchase market and "when issued" stocks—new issues that have been announced but not yet made.

There is increasing concern at present, however, over the largely unregulated dealings in government securities outside the range of the 37 primary dealers. The recent collapse of Lion Capital, which was active in selling government issues to local education boards under repurchase agreements, has exacerbated the situation and there have been several rumours of other firms in trouble.

The Fed says that all the primary dealers fall well within the sort of guidelines it has suggested the industry should establish for itself. But the firms involved have not been able to get together with a common voice so far.

Some of them argue that common standards would give an unfair bias against several dealers, particularly smaller organisations, and most seem to feel that operating on a basis of trust has worked well in the past. They also contend that tighter regulations would raise the cost of Government debt funding.

So far the Fed is holding its fire. But it has indicated that if the industry cannot come to an agreement on appropriate measures, it might take the matter into its own hands and go to Congress, for powers to impose new standards.

Norpipe boosts earnings

BY OUR FINANCIAL STAFF

NORPIPE, the Norwegian company which operates two major North Sea pipelines, reports a 13 per cent increase to NKr 258m ($34m) in net profits for 1983, despite reduced handling volume.

Pipe handling volume slipped to the equivalent of 26.2m tonnes last year from 27.4m in 1982, and revenues dipped to NKr 2.7bn from NKr 3bn. However, the company says its operating ratio was very close to 100 per cent last year.

Norpipe is a joint venture between Statoil and Phillips Petroleum of the U.S.

The company says it is considering various alternatives for the utilisation of existing and future spare capacity. Decisions have been made for the transportation of natural gas from the Statfjord Field which will start in 1986. This will be followed by the Heimdal and Gullfaks Fields and petroleum from the Ula fields, which will start in 1987.

Portugal move for Barclays

By Diana Smith in Lisbon

BARCLAYS Bank International has become the eighth foreign bank to apply to open a full branch in Portugal in the wake of the liberalisation of banking legislation in March.

Barclays has 26 per cent of Sofinloc, a leasing company launched last year. It also has an interest in Macao's Banco Comercial de Macau, in partnership with Banca Portugues do Atlantico.

Denmark sees more issues

BY OUR FINANCIAL STAFF

NEW equity financing on the Danish stock market is set this year to top the DKr 1.6bn ($116m) of net new funds raised in 1983.

Despite the slide in share prices this year, which has pushed the Copenhagen SE index down by a fifth from its January peak, the bourse authorities are confident of continued high funding.

The DKr 1.6bn raised in fresh share capital last year compares with DKr 957m in 1982, and the bourse sees this growth as a turning point ushering in a "new era" for investment capital.

Share market turnover last year considerably more than quadrupled to DKr 1.7bn, while bond turnover rose by 132 per cent to DKr 60bn. With a net bond supply of DKr 109bn, the nominal value of all listed bonds rose by 18.6 per cent to DKr 695bn at the end of 1983.

Italian electronics group out of the red

By Alan Friedman in Milan

SGS-ATES, Italy's leading micro-electronics company, last year broke into the black for the first time in more than a decade.

The company is owned by the IRI-STET state holding group but is actually run like a private concern by Sig Pasquale Pistorio, the chairman who was recruited in 1980 from Motorola in the U.S.

Sig Pistorio has implemented a radical management change at SGS over the past three years and the results are beginning to show. After a 1982 loss of L45.6bn, the company last year made a small net profit on L346bn of turnover.

The profit, L548m, represents only a few hundred thousand dollars, but is the first net profit since the 1960s.

In the first quarter of this year, SGS's turnover was up by 80 per cent year-on-year at L123bn. The order book was 174 per cent higher at L224.7bn.

SGS said it made a net profit of L5.4bn ($3.2m) in the first quarter of 1984, after L23bn for research and development and L15bn for finance charges.

The company expects this year to sell half of its products in Europe.

INTERNATIONAL APPOINTMENTS

New York Stock Exchange elects new chairman

● NEW YORK STOCK EXCHANGE has elected Mr John J. Phelan, Jr., chairman and chief executive officer, succeeding Mr William M. Batten. Mr Phelan was president and chief operating officer. Mr William M. Ellinghaus becomes executive vice chairman of the Exchange. He will also serve as a member of the board, subject to membership approval. Mr Ellinghaus was formerly president of AT & T. Mr Roger E. Birk, chairman and chief executive officer, Merrill Lynch & Co., and Mr Michael Creem, senior partner, Creem & Creem, were elected vice chairmen of the board.

● Mr Hitoshi Tanaka, managing director of Yamaichi International (Europe), London, has been appointed a director of YAMAICHI SECURITIES CO., Tokyo. He will continue to be based in London as resident director, taking overall responsibility for Yamaichi's European and Middle East operations.

● COMSAT world systems division has appointed Mr Francois Giorgio as vice president and general manager of INTELSAT technical services. He assumes responsibility for the management of Comsat's engineering and technical support to Intelsat, the 108 member country co-operative organisation of which Comsat is the U.S. participant. He succeeds Mr Louis Pollack, who will soon retire from the corporation. Mr Giorgio has been with Comsat since 1965.

● Mr Alexander P. Zechella has been elected president, chief executive, chief operating officer and a director of CHARTER CO, Jacksonville, Florida. Mr Raymond K. Mason has relinquished the positions of president and chief executive but will continue as chairman. Mr Zechella was executive vice president of Charter Co and chairman of its Charter Oil Co Unit.

● Mr Robert B. Ormsby has been elected to the LOCKHEED CORPORATION'S board. He is group president of the corporation's aeronautical systems group.

● HOUSTON NATURAL GAS CORP has appointed two new officers. Mr Floyd C. Wright has been promoted to vice-president administrative services, and Mr Donald H. Gullquist has been named treasurer. Mr Wright joined HNG in 1950, and was director of transportation and director of administrative services. Mr Gullquist joined HNG in 1975 as a financial analyst.

● Mr R. Clark Goode, Jr, has been named managing director of KELLOGG CONTINENTAL, Amsterdam, a member of the worldwide group of M. W. Kellogg engineering and construction management companies. He moves to Amsterdam from Jakarta, where he had been president-director of P.T. Kellogg Sriwidjaja, an Indonesian engineering and construction company jointly owned by Kellogg and P. T. Pupuk Sriwidjaja, state-owned Indonesian petrochemical agency. Mr Goode succeeds Mr Richard T. Arnott, who has returned to Kellogg world headquarters in Houston after four years as managing director of the Amsterdam company.

● Mr Michael A. Cipollaro has been named deputy managing director for the international division of McCORMICK & CO, Baltimore. He joins following two years as president of Interact, Inc, an investment counselling and financial planning company which he founded in New York.

● After 20 years with the RHM Group Mr J. M. Semple has reached retirement age and is to be succeeded as president and chief executive officer of RHM Holdings (USA) Inc, Chicago, by Mr Bryan Gibbs. Mr Gibbs, previously managing director of the RHM grocery division in the UK, has been in the U.S. since the beginning of this year.

● Mr John A. Timmins, who for the past eight years has been vice-president of marketing and sales of DE HAVILLAND AIRCRAFT OF CANADA, has left and formed Timmins & Company, Aerospace Marketing Corp, Toronto.

● Mr John E. Callaghan, managing partner, Stokes Kennedy Crowley & Co, has been co-opted to the court of the BANK OF IRELAND.

● Mr Arthur G. Cooper has been named senior vice-president, general manager at LIFETIME, New York.

● Ms Rosemary T. McFadden has been named president of the NEW YORK MERCANTILE EXCHANGE (NYMEX). She succeeds Mr John Elting Treat, who resigned to join an investment banking firm in Los Angeles. Ms McFadden served NYMEX as assistant legal counsel and vice-president, administration, before becoming executive vice-president in 1982. Her responsibilities included administration, clearing, compliance and floor operations.

● Mr Gene Chew, has been named vice-president, domestic sales of BP NORTH AMERICA TRADING INC, Houston, Texas. He had been vice-president West Coast operations for BP North America Trading at its offices in San Pedro, California, since 1973.

● PA DESIGN, international design division of PA Technology, has appointed Mr Clement Rousseau its director in Paris. After five years at Raymond Loewy International, Mr Rousseau joined PA Design in 1981 to run the consultancy's product design department in Paris. He was recently appointed vice-president of the Union Francais des Designers Industriels, the French professional designers association.

● Professor Dr Hans Letsch has succeeded Dr Hans Schaffner as a vice-chairman of the board of SANDOZ, Basle.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS — Issued, Bid, Offer, Change on day, week, Yield

DEUTSCHE MARK STRAIGHTS — Issued, Bid, Offer, Change on day, week, Yield

SWISS FRANC STRAIGHTS — Issued, Bid, Offer, Change on day, week, Yield

YEN STRAIGHTS — Issued, Bid, Offer, Change on day, week, Yield

OTHER STRAIGHTS — Issued, Bid, Offer, Change on day, week, Yield

FLOATING RATE NOTES — Spread, Bid, Offer, C.dte, C.cpn, C.yld

CONVERTIBLE BONDS — Cnv. date, Cnv. price, Bid, Offer, Chg. day, Prem

EUROBOND TURNOVER
(nominal value in $m)

	Euro-clear	Cedel
U.S. $ bonds		
Last week	15,972.2	12,511.4
Previous week	11,336.5	14,318.2
Other bonds		
Last week	1,538.6	1,682.9
Previous week	1,765.7	2,011.4

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 300 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bank of Tokyo International; Blyth, Eastman, Paine, Webber International; Chase Manhattan; Citicorp International Bank; Credit Commercial de France (securities) London; Daiwa Europe NV; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nomura International; Orion Royal Bank; Robert Fleming and Co.; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Swiss Bank Corporation International; Wood Gundy.

Closing prices on June 1

FINANCIAL TIMES SURVEY

Monday June 4 1984

SHIPPING

The last few years have been tough for owners and builders of ships. Some markets are improving as key economies pick up, but the dominant mood is by no means optimistic. The Posidonia shipping exhibition in Greece this week will be a focal point for the maritime industry

BY ANDREW FISHER
SHIPPING CORRESPONDENT

THE WORLD'S shipping industry is emerging from the worst recession that shipowners can remember. Last year the first glimmerings of improvement emerged, and the recovery is likely to continue at a faster rate of knots this year.

But there is still plenty of scope for the Jeremiahs—and there is no shortage of those in shipping and shipbuilding. The total of world cargo tonnage is still far above present and potential demand, and shipbuilding capacity considerably exceeds the needs of the market.

Scrapping levels, especially for tankers, have been high. Countries with major shipbuilding industries have been cutting back their capacity for adding to the world's fleets. Yet, the surpluses remain, ominously overhanging shipping markets in which recovery is fragile, at best.

Adding to the concern of many shipowners are the ambitious plans of container companies, such as Evergreen of Taiwan, and U.S. Lines, to boost their fleets and begin round-the-world services. Other international container and bulk shipping groups have also begun to invest heavily.

Like the tanker and bulk carrier sectors, the container trades are already over supplied. All three have variously felt the benefits this year of the fast growth of economic activity in the U.S. and the more hesitant rises in Europe and the Far East. Expanding world steel output is giving the bulk carrier market more buoyancy, while the force of the U.S. surge has been felt across the Atlantic and Pacific on general cargo routes.

But rate increases to date have been by no means enough for most owners, especially those in Europe with high cost fleets. The last few years have also been a testing time for the banks, some with several billion dollars lent out to the industry.

Bankers' patience has, indeed, worn thin on some occasions. Mr Frank Narby's Cast/Eurocanadian operation and Hellenic Lines, headed by Mr Gregory Callimanopulos, both ran aground as a result of financial over-exposure during prolonged recession and tough competition.

Innovative

All of the major oil companies have been steadily reducing their tanker fleets, no longer feeling it necessary to have vast numbers of VLCCs (very large crude carriers). For some years now, it has been clear that supertankers have had their day, though a number will remain. Oil comes increasingly to major markets on short-haul routes from Mexico, Alaska, or the North Sea.

The latest attacks on shipping in the Gulf as a result of the Iran-Iraq war highlighted the problems of the VLCCs and their big sisters, the ULCCs (ultra large). Closure of the Gulf, whether by force or because of owners' refusal to go there, would virtually eliminate employment for supertankers.

Large numbers are still laid-up, though idle tonnage figures have crept down in the past few months. Other ships are used for oil storage. The busy scrapyards of Taiwan, South Korea and elsewhere will certainly have no shortage of raw material in coming years.

The more innovative of the world's shipowners—those who have decided to stay in the business at all—are now looking at new ways of keeping a profitable stake in the game. Whether through partnerships with other countries, moves into the offshore scene, or specialisation in roll-on/roll-off, car carrying or other forms of shipping, they have been forced to embrace more modern concepts of transportation.

Banks have encouraged this approach. Some have sought to encourage shipowners to diversify from shipping. At a recent seminar held in Greece with just this aim in mind, Mr Michael Revell, a shipping finance expert with Marine Midland Bank of the U.S., made a telling point.

"If one analysed the return on capital for the Greek shipowner over the past few years, I think it would show that the results ranged between 2 per cent and a negative percentage per annum—in other words totally unacceptable and the recipe for bankruptcy."

He stressed this was not meant to encourage a panic exodus from the industry. But owners should consider other avenues of investment to run in parallel with shipping. Bonds, property, and energy were some suggested by the bank. Some leading shipowners, whether in Hong Kong, Norway, or the UK have built up substantial foreign and local real estate and other non-shipping interests in recent years.

Emphasis

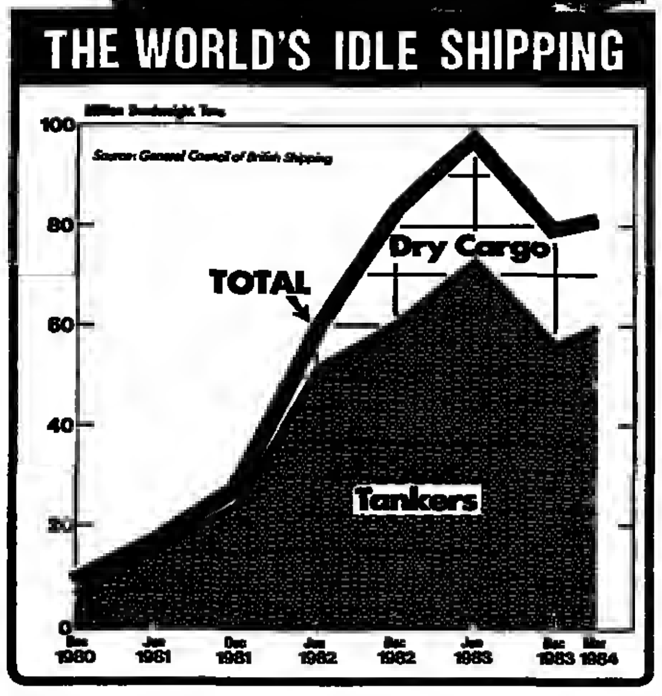
Some bankers have also emphasised that because of high over-capacity in world shipyards, future market upturns are likely to be smartly nipped in the bud. Prices of new ships have sunk to low levels in the last couple of years, encouraging some owners to take advantage, especially as financing terms are often tempting.

The maritime scene has been given some painful structural jolts since the early 1970's oil crisis. All the efforts of yards to put in massive facilities to build VLCCs and ULCCs are now seen to have been mostly wasted. The tanker boom was short-lived and its aftermath led to some ferocious financial blood-letting among tanker owners and shipbuilders.

To stay in business, if they can, yards have been forced to slim capacity, discard jobs, and modernise. Even then, profits are hard to earn. The rapid rise of South Korea as a force in shipbuilding to rival the mighty Japanese has put more pressure on a fraught market. Japan's earlier expansion took place when orders were moving ahead. Korea's has come when they have dwindled.

Shocks to the established maritime order have also come from outsider shipping lines who have cut rates on scheduled routes and forced the organised conference groupings on to the defensive. Some of the outsiders, like Mr Narby, are now off the scene. But they have made their mark, most recently Evergreen with its huge $1bn investment programme in ships and equipment.

It is to the strength and stamina of world economies that shipowners are now looking to see if ship values and freight rates can rise enough to bring a return to profit. But there are few illusions that a new boom is just around the corner.



IN THIS SURVEY

Editorial production of this survey Mike Smith

Andrew Fisher reports on new laws

Liners feel the regulatory draught

SHIPPING is not the unregulated, freebooting business that many outsiders may fondly imagine. Adventure and romance are the last things to figure in the modern shipowner's thinking in a world which increasingly stresses shipping as just one link in the overall transport chain.

These days, it has become harder than ever for the individual entrepreneur to cut a profitable figure on the shipping scene. Giant consortia have been formed to make the massive investments needed to buy modern container and roll-on/roll-off ships which provide many of the regular cargo liner services between major ports.

General cargo shipping—excluding loose bulk cargoes like iron ore, grain, or oil—can be roughly divided into the equivalent of bus and taxi services. Greek owners have traditionally concentrated on the taxi side, making ships available for trips to anyone willing to charter them.

It is the bus services, a perhaps over modest analogy when the size and complexity of modern cargo liners is considered, which are now feeling the regulatory draught as developing nations attempt to obtain a larger share of trade in goods to and from their shores.

Last October saw the coming into force of the United Nations liner code, a document much debated and agonised over in the nine years since it was adopted in 1974. Put simply, it seeks to allot liner cargoes so that importing and exporting countries each have 40 per cent and cross-traders the rest.

But the liner code is not actually that easy to pin down. For one thing, the 40-40-20 formula is not spelt out in the wording of the code, though it has become a handy way of describing its possible effects. For another, developed countries disagree over whether or not to accept it. *The U.S. is against, while* the EEC has worked out a compromise to mitigate its impact.

Yet another complication stems from the tremendous changes which have taken place in the liner sector over the past decade. No longer do the conferences, the numerous cartels which set rates and schedules among their members, dominate liner trades. Competing, lower price outsider lines have barnstormed on to the market, not all with success.

When the code was formulated under the auspices of the United Nations Conference on Trade and Development (Unctad), outsiders had well under a tenth of liner business. Now, it is more like 40 per cent and even more on some routes. The code, however, is designed to apply only to conference lines, though some of the developing countries want it to apply to outsiders also.

Undeterred

The majority of liner trade is carried out between developed countries and will not be affected by the code. Just over 30 per cent is between developed and developing nations, with only 5 per cent between the developing countries themselves. The code, noted Hoare Govett, the London stockbrokers, "does not appear to be the danger to established operators that it was once thought to be."

Unctad also has its eyes on the dry bulk cargo and oil sectors of world shipping. Expressing the view of most western companies, Mr William Menzies - Wilson, chairman of Britain's Ocean Transport and Trading, said: "I very earnestly hope that in the years to come, we are not going to see a UN bulk code."

But Unctad, with the developing countries backed by the Soviet Union and China, is unlikely to be put off by such objections, however vigorous.

With world overcapacity at around 40 per cent, shipbuilders see little chance of making profits. Andrew Fisher reports

Bleak prospects for shipbuilders despite yard cutbacks . . .

JAPAN, long the world's leader in shipbuilding, is trying bard to keep its faith in an industry that bas been ravaged so fiercely in recent years.

The country's yards won a vast number of orders last year — many of them domestic — and are mostly full until the end of 1985. This is more than can be said for yards elsewhere, *notably in Europe.*

But the industry will be bard-pressed to make any money from the new work. Shipbuilding prices had plummeted by the start of last year, a trend which eocouraged owners to step into the market while the cost was low. One Japanese company, tha heavily loss-making Sanko which is being restructured, ordered as many as 123 vessels.

The emphasis in last year'a new ordering was on bulk carriers, mostly handy size of 20,000-40,000 dwt. But despite the ordering spree, with Norwegian, Greek and Far Eastern shipowners joining in, prices bave atayed low. Japanese builders, not to mention those in Europe, see little chance of making money for some time. Even the aggressiva South Koreans are wondering bow to fill their vast new capacity, as they rapidly complete existing orders.

Japan's Ministry of Transport recently called for a new approach to the industry, whicb "bas been struggling in the mire of worsening business results and other problems." In spite of past cuts in capacity, no improvement was foreseen.

First, world economic growth would not be enough to promote a surge in demand for new ships. Secondly, countries outside Japan and Europe — it mentioned none by nama, but Korea and China are obvious examples—were now competing strongly in tha ship and machinery markets.

Thirdly, and most worrying politically, "as the West European shipbuilders increasingly lose their competitiveness, their attitude toward Japanese builders may become increasingly severe." Yards in Europe certainly feel no particular affection for tha Japanese after their concerted sprint to the top of the shipbuilding league. All are still suffering from the collapse in demand which followed the effect of tha 1973 oil crisis on tha tanker market.

Whather at the modern Nagasaki yard of Mitsubishi, the slimmed down and now profitable Kockums in Malmo, Sweden, the defunct Weser yard in Bremen, or the newly confident Harland and Wolff in Belfast, the towering cranes and buge docks are a painful reminder of tha high bopes thet once reigned in tha industry.

The MoT did not spell out exactly what it had in mind for the new "long-term vision" it desired for the industry in Japan. It worried about tha ageing of production facilities and the workforce, as well as the likelihood of chronic competition among domestic yards. With the fast growth of high technology and service industries, shipbuilding could lose its prominence.

Soma experts would say it already has. While not going this far the ministry said: "It is feared that in the near future tha nation'a shipbuilding industry will losa its reputation and prestige, both at bome and abroad, as one of the key industries." Its vitality would ebb and deterioration would be inevitable.

What the ministry vaguely proposed was improved productivity and production systems (including the grouping of yards and more automation), a revitalisation of industries linked with shipbuilding, and the development of new shipbuilding technologies and high-performance ships.

Shortlived

In short, the Japanese want to prepare their industry for a period of much lower order books and fast growing low-cost competition. At the start of 1983, before the short-lived jump in orders, the world order backlog of 26.6m gross registered tons was at its lowest since autumn 1979.

It ended the year, according to figures from Lloyd's Register of Shipping, at 32.6m grt. Of this, Japan accounted for 43 per cent, South Korea for 14 per cent, and Western Europe for 17 per cent. But out of the actual new order inflow, Japan pulled in as much as 56 per cent, Korea 19 per cent, and Western Europe little more than 10 per cent.

Many European shipbuilding executives, incinding chairman Graham Day of nationalised British Shipbuilders, reckon yards in Europe will ba lucky to hold on to a tenth of the world market. BS bas reduced jobs and capacity considerably since the 1970s and tha process is continuing. Sweden, once the world's number two shipbuilder, has also shed much of its employment and facilities in order to keep the industry alive.

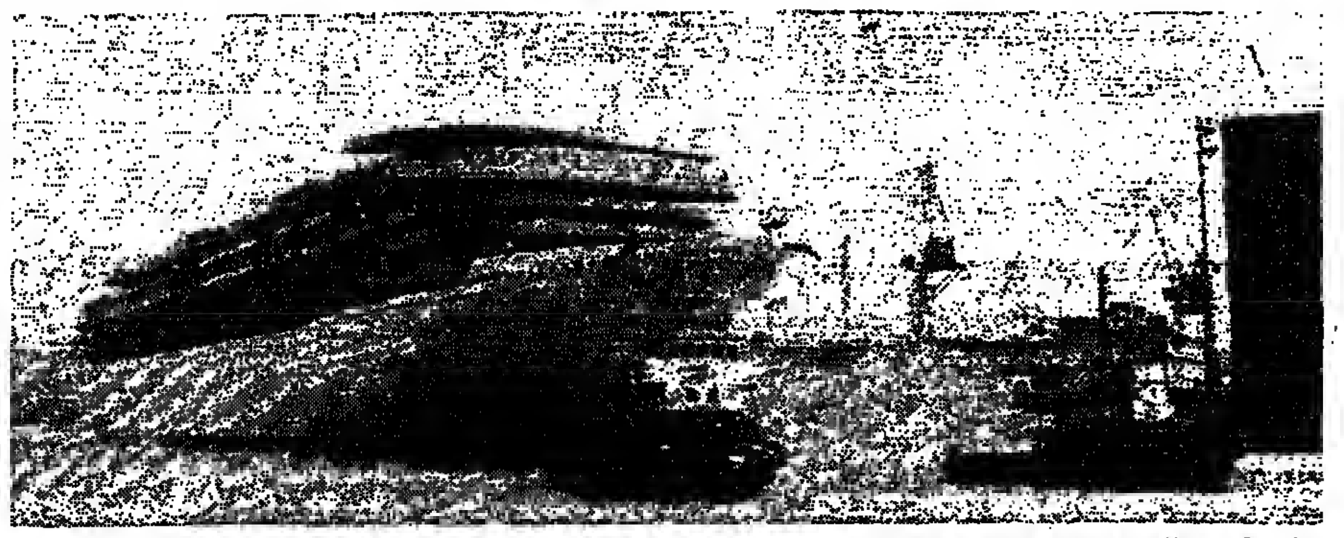
Other countries with a strong shipbuilding tradition are, with varying degrees of reluctance, taking strong action to hring their industries down to a less financially burdensome size — West Germany, France, and Spain have all announced cuts.

The Norwegian industry is a shadow of what it was.

Only the Finnish yards, helped by periodic chunks of Soviet business and their expertise in building ice-breaking and cruise ships, have managed to stay well in the race. Even in Finland, though, yards are anxious for more business to fill order gaps.

Over-capacity in world shipbuilding has been put at some 40 per cent. Governments have poured vast sums of money into yards to subsidise orders, restructuring, and investment. The EEC, which has tried to get member states to ease the granting of aids, now recognises that this is impossible.

Instead, the Commission is prepared to allow a temporary increase in help to the industry —*member states still hava to* approve this—as long as this is combined with further capacity cuts and modernisation of remaining facilities. The price gap with the Far East often exceeds 30 per cent. Continued subsidies are seen as inevitable, if the whole industry in Europe is not to slide rapidly into oblivion.



The Royal Princess (above), under construction in Finland for P & O, is due to be completed in the autumn. Here it is being towed for fitting out in Helsinki

WORLD SHIPBUILDING ORDERS AND COMPLETIONS

(m. gross registered tons)

	Completions			End-year order level		
	1973	1982	1983	1973	1982	1983
Japan	14.7	8.2	6.7	59.6	10.1	14.0
South Korea	0.01	1.4	1.5	1.3	2.6	4.6
West Europe	12.0	3.8	4.1	54.9	7.7	5.7
inc. Sweden	2.3	0.3	0.3	10.7	0.6	0.5
West Germany	1.9	0.6	0.8	7.3	0.9	0.6
UK	1.1	0.4	0.5	7.5	1.0	0.6
Spain	1.3	0.6	0.5	7.2	1.5	1.2
France	1.2	0.3	0.3	5.2	0.7	0.5
Italy	0.8	0.2	0.3	4.0	0.5	0.3
Norway	1.0	0.3	0.2	5.0	0.3	0.1
World total	30.4	16.7	15.7	128.9	29.2	32.6

Source: Lloyd's Register of Shipping

. . . but business booms for the breakers

"SHIPBREAKING is not a gentlemanly business," commented Lambert Brothers Shipping by way of advice to any small shipowners seeking the best scrap price for their redundant vessels. The London shipbroker counselled the use of a negotiating intermediary rather than the direct approach to the demolition yard itself.

Shipbreakers, mostly in the Far East, continued to do a substantial trade last year. Tankers again dominated the scrap figures, as owners sought to rid themselves of the VLCCs and ULCCs (very and ultra large crude carriers) that have been such a burden since the oil price soared a decade ago.

Since 1978, some 200 VLCCs and ULCCs totalling over 46m dead weight tons have been sold for scrap. Last year's total was 65, including the world's second biggest ship — the six-year old 555,000 dwt Pierre Guillaumat which was sold for $8m to a South Korean breaker.

Another VLCC, the Amoco Chicago (235,000 dwt), was a mere four years old when she was sold to Taiwan. Oil companies sold about 6m dwt for demolition last year and independent owners some 20m dwt. Exxon, the U.S. oil major, sold 1.4m dwt, including five VLCCs; since 1975, the group has disposed of 7.5m dwt of tankers and combined carriers (also able to carry dry bulk cargoes) to scrapyards.

Intertanko, the Oslo-based body representing independent tanker owners, has been doing its best to spread the demolition message. Following its encouragement to China in 1982 to enter the market, that country did so last spring by purchasing ships up to 139,000 dwt.

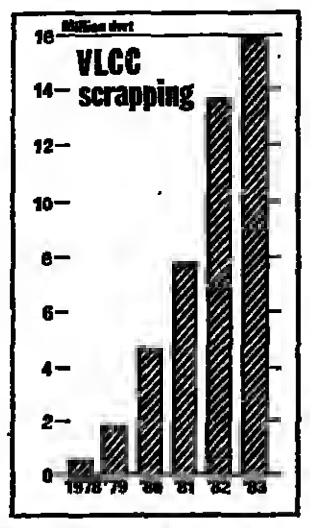
Thailand has also come on to the scene, and Intertanko expects it to build up its demolition busines sthis year. But the main forces in the scrap trade remain Taiwan and Korea. Pakistan has taken one VLCC in each of the past two years, while India has concentrated on smaller dry-cargo vessels.

Strong attempts have been made to interest other countries in ship scrapping, but with little success. If an owner wants to scrap a large vessel that happens to be in the wrong part of the world, a costly voyage to the Asian scrapyards is necessary. Some scrap sales have been made to South America, while schemes to build up demolition in Greece have failed to make progress.

Taiwan handles about 60 per cent of the demolition business. Last year, the world's ship scrap sales totalled 33m dwt against 29m dwt the year before. The 1983 total was more than twice that of 1981 and three times that of 1980.

A key event in the industry last year was the ending of the Taiwanese cartel, which had been reactivated in 1982. Called the China Dismantled Vessel Trading Corporation (CDVTC), its aim had been to bring prices down. In this it succeeded. By the end of 1982, scrap levels were below $90 per lightweight ton (ldt) after being well over $100 in mid-1981 and more than twice that level in spring 1980. Taiwanese prices for tankers ended 1983 at around $130 per ldt (the weight of the ship without cargo), though owners had hoped for better prices.

The shipping industry has not given up hope of persuading more countries to develop scrap facilities so as to help owners reduce the world's considerable tonnage surplus. Liberia and Egypt are among the latest candidates to start wielding the scrapping gear.



John Moore and Ray Maughan report on insurance and finance for the industry

Insurance premium rates rising sharply

LONDON-BASED insurers of ships and their cargoes are enjoying bonanza-type trading conditions. Insurance premium rates, which have faced competitive pressures for some time, are rising sharply.

London-based insurers occupy an enviable position in world marine insurance markets. The historical association of Lloyd's underwriters with the insurance of ships, dating back nearly 300 years, means that Lloyd's is probably the oldest established insurer in this class of business.

Lloyd's long association with the marine market and its relationship with London insurance companies have enabled London insurers to build up a commanding market share. Around 40 per cent of the world's fleets are insured at Lloyd's and with London insurance companies.

Even at times of recession and at a time when there is worldwide overcapacity in insurance markets—with too much insurance capital seeking business which is not growing at the same rate as available markets—London is cushioned against the worst effects of competition.

A dominant market share is only one factor which contributes to the underlying success of marine insurers in London. The other factor is the cartel system which operates between London insurers and Lloyd's underwriters.

In conjunction with companies which are members of the Institute of London Underwriters Lloyd's works closely with the company market to establish rates at agreed levels which are expected to be followed throughout the market. The agreed rates are sometimes undercut—but not often. It is understood that the agreed rates represent an accepted minimum. Underwriters are expected to follow the rates although they can set rates at higher levels above the amounts indicated.

Other factors have helped the trading pattern of underwriters in London. Wars and rumours of wars have led to a sharp increase in "war risk" rates on ships. War risk rates currently stand at 7.5 per cent of the value of ships hulls for those vessels travelling to Kharg Island and Bushire. They have jumped from 1 per cent to the present levels in the last few weeks. Earlier this year they had jumped from 0.75 per cent to 1.5 per cent but had been drifting back to around 1 per cent when hostilities in the Gulf area escalated in May. They were then increased to 3 per cent and raised to 7.5 per cent at the end of May.

Overall underwriters and brokers are reporting that market understandings are being adhered to in Lloyd's and London insurance companies and rates are hardening although the values of fleets insured may be falling. For instance, a fleet with a value in excess of $40m faces an increase in its premium costs of around 30 per cent, according to guidelines laid down in the London market for the renewal of the insurance of fleets this year. The shipowner may offset some of the increase by agreeing to meet a higher proportion of each claim in the form of an increased deductible.

The amount of increase is related to a formula based on the credit balance of an insured fleet. The credit balance is the difference between the amount of premiums paid by the shipowner for the insurance of his fleet and the claims paid out. The example quoted above would imply that the fleets insured had a low credit balance. If there had been a 30 per cent credit balance the shipowner might have had to pay only a 15 per cent increase. If the balance is 50 per cent or more there might have been no increase required.

A fleet with a good underwriting record may be paying below 1 per cent of hull values, while those with poorer records could be paying up to 4 per cent of hull values.

The cargo market is more competitive where there are no joint market understandings. However, there is an agreement to respect the leading underwriters' rates which are set. Again the rates set depend on a shipowners' record.

Meanwhile the competitive pressures have been relieved by the withdrawal of some of the overseas underwriting capacity. Marine insurance business has proved unprofitable for some of the companies who have had to set low rates in an attempt to win business from the London insurance market.

J.M.

Finance companies see signs for optimism

"OUR MAIN concern," as one ship lending specialist put it recently, "is that our portfolio is running off faster than we can put new business on."

His concern is not at all untypical but in many respects it must be a curious attitude given that, as bankers say, "rescheduling is the name of the game."

Debt repayments are being re-structured and, in addition to these lengthening maturities, complete moratoria are called from time to time on principal repayments and even, in some instances, on interest repayments. Given the uncertain prospects for second-hand values, it must be a moot point whether the banks can always be sure that asset cover is adequate for capitalising interest charges.

Shipowners themselves are acutely aware of deepening problems of over-capacity posed, ironically, by an improving outlook for freight rates.

Potential pitfalls

For example, Mr Anko de Jong, managing director of Nedlloyd Bulk, pinpointed the potential pitfalls when he presented a paper to the annual meeting of the International Association of Independent Tanker Owners in the spring. He said that tempting cheap credits from finance banks could lead to the detriment of the shipping market through over-capacity.

The majority of banks have a relatively small commitment to the shipping industry in comparison with their overall investment and credit portfolios and consequently they may not be so reluctant when it comes to extending credits, particularly if the market shows signs of improving.

In de Jong's view "this would be disastrous." He hoped that banks would get together and work out efficient and maybe somewhat restrictive credit rules to assist in assuring a reasonably balanced shipping market.

What chance is there of achieving close banking collaboration in the search for supply/demand equilibrium? The prognosis must be fairly gloomy in view of the banks continuing hunger for assets and earnings.

The traditionally high margins on shipping finance have attracted many lenders to the industry and margins, as one banker put it forcibly, "are coming down when, in the light of the state of the industry, they should be going up."

The bankers' attitudes are clearly dictated by the health, or otherwise, of their portfolios. As a generality, the UK clearing banks appear tolerably comfortable with the shape and spread of their shipping loan books and their attitude might be described as positive, although not exactly sanguine.

In an ever increasingly competitive lending markets, the principal method of building a portfolio now seems to be to pick up somebody else's problems. It seems probable that a good shipping name will be able to turn to a new bank for re-financing if it runs into problems with its existing lender. The banks acknowledge that restructuring on such terms is difficult but perhaps the most likely way of attracting new customers.

Shipping finance companies now see signs of optimism, not least through the creation of new venture funds and their restored ability, after a two year absence, to put together stand-alone projects which do not require the backing of major first mortgage finance.

Even so, all financiers to the shipping industry acknowledge that cash flow in general is their biggest problem. *And for the* UK shipping industry, at least, the chance of building consistently positive cash flows have been dealt a severe blow by the Budget provisions for capital allowances.

The General Council of British Shipping has stressed recently that "the Government's proposals (covering capital allowances and Corporation Tax) mean the loss of free depreciation for the UK shipping industry at the worst of all possible times."

Uncompetitive

Outlining what it describes as "an alarming rate" of loss of tonnage the General Council has claimed that "the Government is proposing measures which, for shipping, will inevitably lead to a smaller, ageing and uncompetitive fleet."

It said that the Chancellor's proposals "create four major problems for shipping companies. First is the loss of flexibility in applying relief to erratic movements of profits, tax payments, and cash flows. Next are the consequences of balancing charges which will have a serious impact on the financing of subsequent re-investment.

Third is the heavily increased, and what will be a prohibitive, cost of acquiring ships through leasing. Finally, there is the impact on company balance-sheets arising from the need to provide for deferred tax which could affect companies' borrowing ability.

The Council has recommended that the Budget proposals, as they relate to the shipping industry should be deferred for three years. It wants roll-over relief for balancing charges to be re-introduced so as to encourage re-investment and, lastly, it is lobbying for the conversion of the proposed 25 per cent writing down allowances on a reducing balance basis, for new and second hand ships, into four annual instalments of 25 per cent free depreciation.

R.M.

SHIPPING III

Andrew Fisher examines how the industry is benefiting from the search for and extraction of oil and gas

Secure future for rig builders

Oil companies will spend billions of dollars to search for and extract oil and gas in coming years. For the rig and platform builders who have made a success in the complex and gruelling world of offshore construction, business is likely to be sizeable.

It has been estimated that the UK and Norway will spend around $8bn a year on offshore activity for the next 15 years. Total investment in North Sea, Canadian, U.S., and Soviet fields could exceed $50bn up to 1988, mostly on production plant.

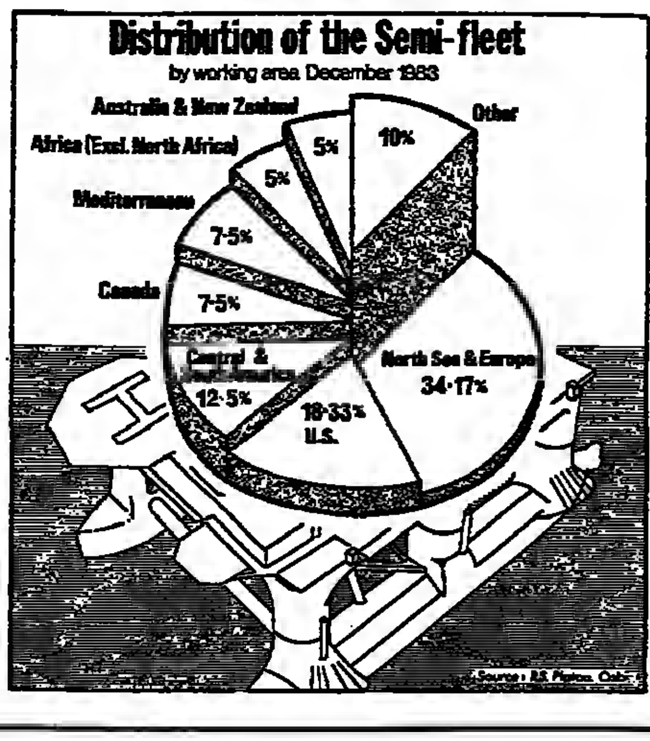
Some yards, like Sweden's Gotaverken Arendal have made a profitable success out of offshore construction. Others, like Scott Lithgow in Scotland (recently sold out of State and into private hands) have not. The oil companies which order the rigs are tough taskmasters when it comes to quality and testing.

Rig owners generally had a hard time in 1983, a year described by R. S. Platou, the Norwegian shipbrokers as "one of the longest and worst years in the industry's relatively brief history." The falling trend of 1982 continued, apart from a late and strong rise in activity in the U.S. Gulf.

Demand for mobile drilling rigs fell by a tenth in the first eight months. Another 50 rigs were laid-up, making a total of nearly 200 unemployed rigs. In the last four months of the year, however, two record-breaking lease sales in the U.S. Gulf boosted demand for mobile drilling rigs in the area by as much as 54 per cent.

This pulled up the overall world level of rig utilisation from 73 to 80 per cent in the period, even though demand in the rest of the world eased. The year ended with chartering rates at very low levels compared with the peaks of over two years ago.

Platou held out little hope that the market for semi-submersible rigs would balance out this year. Demand would need to grow by at least 30 per cent for this to happen. There were 15 semis being built at the turn of the year, 10 due for delivery in 1984.



Offshore market picks up

AS OFFSHORE oil and gas exploration has grown many shipping companies have developed services to match. Traditional maritime sectors have been through a lean time due to recession and oversupply of tonnage. Offshore shipping provides markets nearer at hand and less financially exhausting for those owners who have seen the potential.

Not that the market is an easy one. North Sea chartering rates for supply vessels have also suffered from too much supply. The UK and Norwegian industries have been arguing over the British complaint that the imbalance in the sector, at least in the North Sea, should be righted. UK ships find it hard to enter the Norwegian sector, while plenty of Norwegian ships compete in offshore UK waters.

More accommodating investment rules in Norway, encouraging private investment in new ships for tax reasons, are seen as a main element of the problem. Norway has said it does not discriminate against foreign ships. Talks have been held at government level and the General Council of British Shipping has spoken of "unfair Norwegian competition."

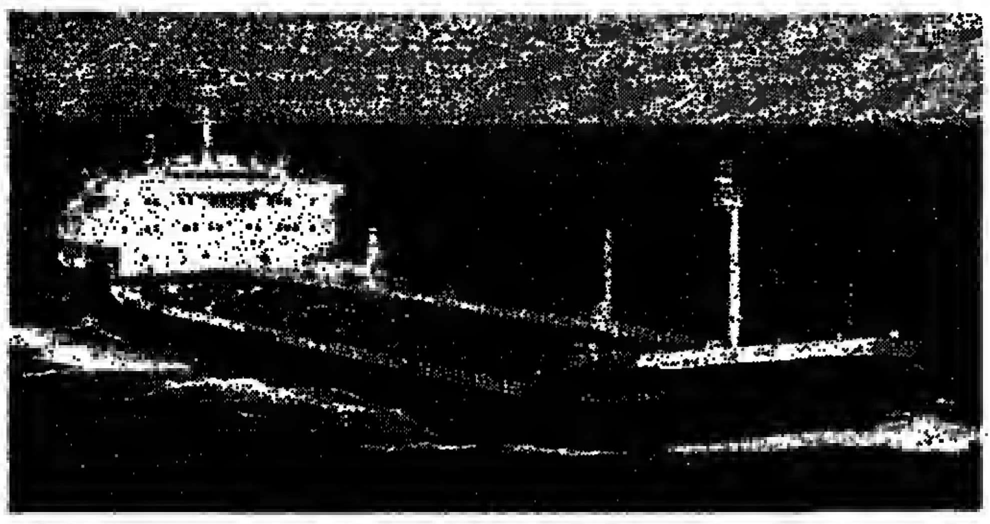
Offshore vessels come in various stages of sophistication. Earlier ones performed straightforward supply and anchor-handling tasks for the huge oil rigs and platforms. More modern ships, such as those recently ordered by Stena Line of Sweden in the UK, can also carry out diving operations, lift heavy loads, and do maintenance work on seabed installations. They have special computer-controlled equipment to hold their position in rough seas.

Stena operates offshore vessels all round the world in markets as widely spread as Brazil, New Zealand, and Mexico, as well as the North Sea. Wilhelmsen, a big Norwegian shipping group, has a sizeable offshore fleet — it is also a major rig contractor — and last year signed a joint venture deal with Tenneco of the U.S. to operate in the U.S. Gulf.

Operators hope 1984 will be a year of better rates after the decline which began in mid-1982 and only bottomed out in the second half of 1983. With exploratory drilling now at a high level, rates could improve substantially. A number of ships are still laid-up, however.

Owners are keeping a close eye on developments near China as exploration is stepped up. In the North Sea, preference is shifting to the bigger anchor-handling/tug supply vessels now being delivered. These more powerful and versatile ships will make it harder for older vessels to compete, especially as drilling moves into deeper and tougher waters.

Although overcapacity remains immense, the fortunes of all three major shipping trades are improving. Andrew Fisher reports



Refined oil product carriers, like this BP ship, have fared better than the big tankers. Trade in oil products rose nearly a tenth in the last four years; the crude oil trade fell over 35 per cent

Ten years of troubles for tanker owners

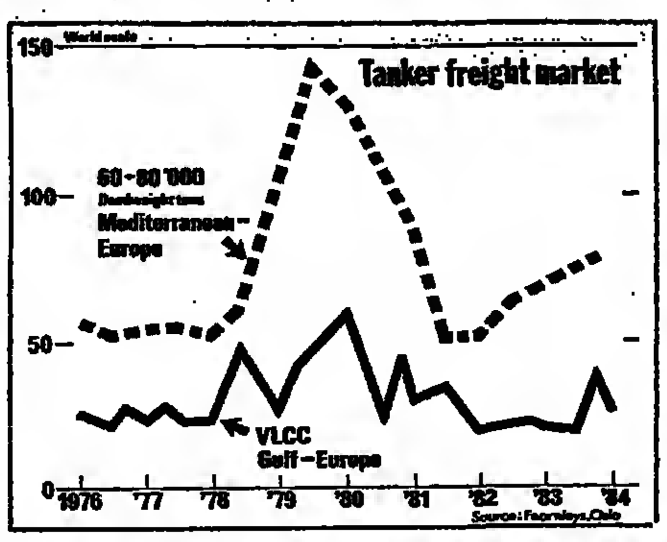
JUST OVER 10 years ago, the Opec countries plunged the world into a financial and economic crisis by hiking the price of oil. Tanker markets have never been the same since.

Even people outside the shipping scene have become aware that tankers are now a struggling breed. There are far too many of them around. The surplus is a result of over-ordering before the oil crisis, reduced oil demand in the recession, and a switch to other sources of supply.

It is the Gulf which provides the bulk of employment for VLCCs and ULCCs (very large and ultra large crude carriers of over 200,000 deadweight tons). But they are not needed to supply the U.S. with oil from Alaska or Mexico, or to take oil from China and Indonesia to Japan. Nor does North Sea oil travel in supertankers to western Europe.

Thus for many years, owners of big tankers have been mostly wringing their hands and wondering when freight rates will return to economic levels. In the Gulf, rates have risen in recent months as tensions associated with the Iran-Iraq war have escalated. But attacks on merchant ships also have the effect of bringing the market to a halt.

The gloom in the tanker markets is not total, however.



Scrapping levels have been high in the past two years — in 1983 alone, 65 VLCCs and ULCCs were sold for demolition —and new ordering has been slight. Moreover, oil consumption began to rise in the second half of last year, though the overall figure was down on 1982.

Oil tonnage transported by sea was up by 12 per cent in last year's second half over the first half. Growth was even more pronounced in ton-miles — most of the output growth came from Opec — and Oslo shipbroking firm R. S. Platou reckoned that demand for tanker tonnage must have thus been about 15 per cent higher.

Even so, it will be some years before a return to market balance is reached for the big tankers. At the start of 1984, the VLCC fleet totalled 151m dwt, said Platou. Of this, 43m dwt was laid-up, another 10m dwt was otherwise inactive, and 25m dwt more was steaming slowly to conserve fuel and lengthen employment.

Yet at the 1983 scrapping rate of 16m dwt for VLCCs, it would take five years to break up 78m dwt. As demand for tonnage grows slightly in coming years and if scrapping is kept up, the balance between supply and demand could be reached in 1987. If scrapping slows down, it may not be until 1989.

Prospects for product carriers (transporting refined petroleum) seem brighter, though.

WORLD TANKER FLEET
(million of deadweight tons)

	1981*	1982	1983	1984
Total tankers	323	319	300	278
Tankers laid-up	6	19	62	53
Tankers operating	317	300	238	225
Combined carriers in oil trade†	13	10	16	14
Operating oil fleet	330	310	254	239

Only vessels above 10,000 dwt included.
* Jan. 1, each year.
† Vessels able to carry oil or dry cargoes.
Source: R. S. Platou, Oslo.

Steel revival boost for bulk ships

THE KEY to the health of the bulk carrier market is the progress of the steel industry. Thus the recent rise in world steel output is good news for owners of bulk vessels, who have seen freight rates fall to dismal levels in recent years.

This sector, like tankers back in the early 1970s, has suffered from an excess of shipbuilding orders. A number of owners became starry eyed about the outlook for coal shipments, but the optimistic forecasts proved unjustified.

With nearly half of 1984 gone, however, this year's trend appears considerably more favourable than that of the past two years. Eggar Forrester, the London shipbroker, spoke recently of justification for "an optimistic view of developments for the rest of the year."

Why the upbeat tone in its latest market review? With demand for ships rising, chartering volume has led to the absorption of a net addition of 4.4m deadweight tons of bulk and combined carriers since the start of the year. Newly built vessels of 2.5m dwt and 2.5m dwt out of lay-up were offset by 1.6m dwt lost through casualty and demolition sales.

Last year, world steel output was around 3 per cent higher. So far in 1984, growth has been much more rapid— about 20 per cent in the first quarter. This has pulled up ore shipments on the major trades from Australia, South America, and South-East Asia to Japan, from Brazil, Africa, and Canada to Europe, and from Canada to the U.S.

Also benefiting have been coal exports from the U.S. east coast (up 17 per cent in the first quarter over the same period of 1983), while Japan's imports of coking coal were over 20 per cent higher.

Prominent in the iron ore trades are the big ships of 80,000 dwt or more. These are also being increasingly used in the coal trades, partly to the detriment of the Panama Canal which can only take vessels up to this level. Such large vessels increasingly load in South Africa, Canada and Australia.

They also tend more to sail from ports on the U.S. east coast to the Far East — avoiding the canal — topping up at terminals along the way, such as Richards Bay in South Africa. Last year's spurt in bulk carrier orders, mainly to the benefit of Far Eastern yards, hardly touched the big sizes.

With new building prices at rock bottom, a number of owners piled into the market for new handy size (20-40,000 dwt) bulkers. At the start of this year, some 13m dwt was on order, about a fifth of the existing fleet in this category. Much of the fleet was old and thus uneconomical on fuel.

In the 80,000 dwt plus range, the order book was only 5m dwt, according to Platou, the Norwegian shipbroker, with 60 per cent of the fleet at least ten years old. Second-hand values of the existing big ships soared last year by 70 per cent or more, as steel output shot ahead in Japan and the EEC and iron ore rates improved.

For grain, the third major bulk commodity, prospects are less hopeful. The trade is much more subject to short-term price shifts, but little chance is seen of an overall rise in grain shipments after last year's 7.5 per cent drop. This was mainly due to good harvests in the USSR and western Europe and lower imports.

Container fleet expanding

THE CONTAINER shipping sector is doing well this year. The strength of the U.S. economy has propelled the growth of imports from Europe and Asia and freight rates have been increased on major routes after a long period of decline and stagnation.

Even so, there is still plenty of cause for nervousness. In this, as in other shipping sectors, over-capacity is a problem. And it is one which is expected to become worse as the world's fleet grows through deliveries of orders placed by major lines.

On the North Atlantic, where operators have lost heavily in recent years, container ships have been sailing full to the U.S., while carrying rather less in the other direction, partly a reflection of the strong dollar.

Present over-capacity is put at least at 20 per cent. Still to exert their full force on container shipping markets are the plans of Evergreen of Taiwan and U.S. Lines, both of which are investing heavily and will start round-the-world services soon.

Evergreen's total investment in new ships, containers and other equipment is set to exceed $1bn. Its two-way global service starts at the end of July and it will eventually be the world's biggest container group, outdistancing Sea-Land (U.S.), Maersk (Denmark), Tung (Hong Kong), and Overseas Containers Ltd (the UK-owned OCL consortium).

Heavy investment

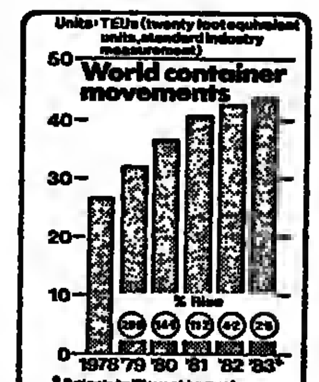
U.S. Lines, however, will have some of the world's largest ships—now being built in South Korea—while European consortia Barber Blue Sea (whose container/roll-on, roll-off ships already go round the world) and Atlantic Container Line (also embracing the ro-ro concept) have also been investing heavily.

Yang Ming, another Taiwanese company, has just ordered new ships. Lykes of the U.S. also plans to expand its fleet. The major Greek liner (scheduled cargo route) company, Hellenic, fell financial victim last year to low rates and high competition in the Middle East after its own heavy investment programme.

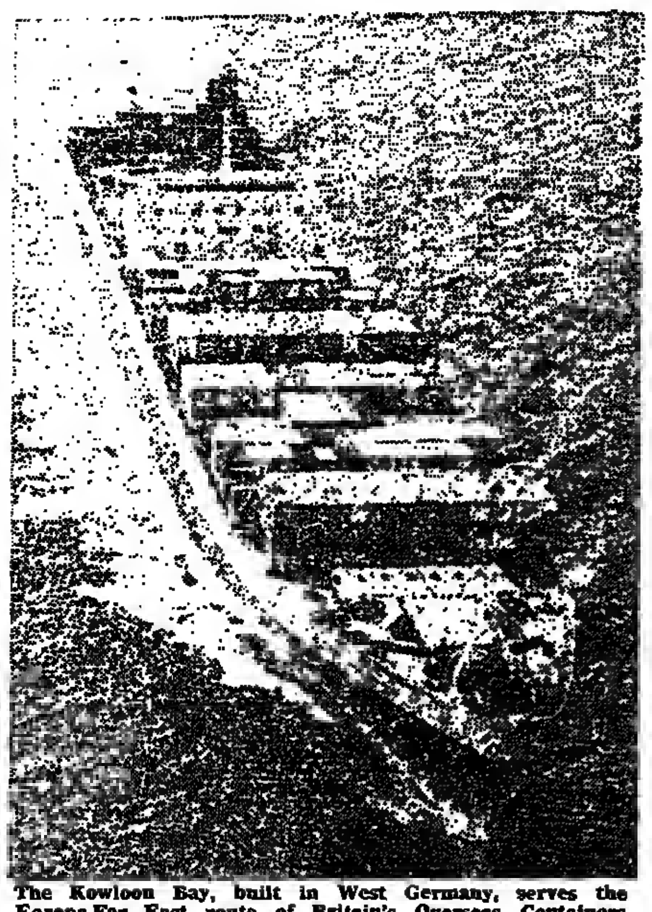
The next three years are seen as "the most physically rigorous in terms of market changes since the container 'revolution' of 1968-72" by Container Insight, a new quarterly. The challenge of Evergreen and U.S. Lines and the likely reaction of other lines means that 1984-86 "will be so financially tight that everyone's cost-effectiveness will be tested to the limit."

Stiff competition on major routes, with non-conference outsider lines creaming off much of the business at undercutting rates, has already left finances exposed. In real terms, rates charged by major lines has fallen: Container Insight noted that rates between North America, Europe and the Far East rose only 23 per cent in 1976-83 against inflation of more than twice this.

Recent rises have brought most rates back up to levels of a few years ago. But the new capacity coming from Evergreen, U.S. Lines and others could well usher in a further debilitating round of price battling, "which will nullify the relative progress made in recent months on the freight rates front."



On this page, a look at how four of the major shipping regions are faring and an examination of their prospects



The Kowloon Bay, built in West Germany, serves the Europe-Far East route of Britain's Overseas Containers Limited (OCL). Competition on the route is likely to become tougher in coming years

North Europe adopts specialist approach

SHIPOWNERS in northern Europe have become used to that embattled feeling caused by recession, lower cost competition from the Far East and elsewhere, and political pressures aimed at giving a greater share of shipping markets to developing countries.

Not surprisingly, the fleets of Europe have diminished considerably over the past decade. The UK fleet peaked at 50m deadweight tons in 1975, is now less than half this, and is forecast by the industry to total maybe only 10-12m dwt in 1986 after budget changes seen as inhibiting the will to invest.

Recent improvements in freight rates as world economies recover have certainly eased some of the gloom in the industry. But many companies' finances have become so eroded—or they have opted out of major commitments to the shipping sector by diversifying elsewhere—that they now see little chance of competing successfully in certain areas.

Thus the big oil companies (including those in the U.S.) have been shedding much of their fleets of supertankers. British Petroleum has cut its fleet sharply and now regards its shipping division as a separate business entity which should be able, eventually to stand on its own feet rather than acting simply as a service arm of the oil group.

"Looking 10 years ahead," said e Norwegian banker in a recent speech, "it is reasonable to assume that very little conventional tonnage will be run by the high-cost European shipping nations."

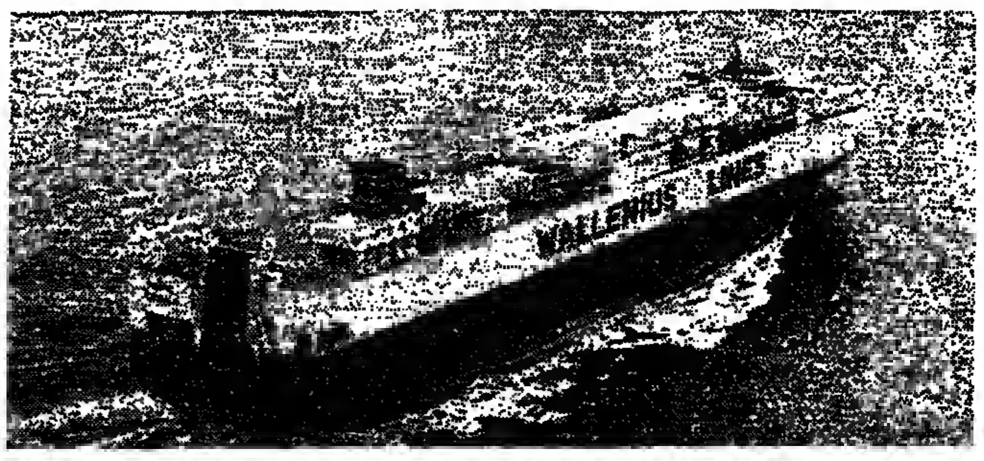
Because of the extreme overcapacity in world shipbuilding, added Mr Magne Haga, a top executive with Christiania Bank of Oslo, "no segment of the shipping market will for a long period of time be allowed to boom."

Several Norwegian companies, such as Jebsen, have agreed partnerships with other countries to spread the financing burden, keep costs under control, and gain access to cargoes. Like other European countries (especially Scandinavian), Norway has made progress in reducing crew numbers and using more efficient tonnage.

But the cost gap remains wide. Mr Haga cited the difference between the $8,000 a day it might cost to run a ship under the Norwegian flag with the $3,500 under the Liberian flag of convenience.

Outside Norway, where the tax system favours private investment in the industry, companies like Hapag-Lloyd of West Germany, P & O of the UK, and Nedlloyd of Holland have all been through hard times, though the worst now seems to be over. More specialised forms shipping, whether in offshore services, cruises, or roll-on/roll-off vessels, are now increasingly seen as the way ahead.

Andrew Fisher



Car carriers like this Swedish-owned vessel are in strong demand from exporters in Europe and Japan. Some 30 such ships were on order at the year-end

Greek fortunes improve

THIS time last year, relations between Greek shipowners and the Government were at a low ebb over a January 1983 Bill introducing strict, and expensive, crew recycling requirements.

Since then, shipowners have lobbied actively and successfully to have the Bill changed. The sting has been taken out of the legislation through a series of exemptions which, according to one shipowner, "amount to the abolition of recycling."

The rule on changing crews on average every seven and a half months—designed to combat unemployment — now no longer applies to new buildings, and newly-bought specielised vessels. It may also be waived depending on employment availability conditions, for varying crew categories.

This and other cost-related factors, however, such as an estimated 240 per cent overall increase in crew wages over the past two years and a virtual doubling of pension fund contributions from about 18 per cent to 33 per cent, have led many ships to abandon the Greek flag. In 1983, the Greek register lost 126 ships totalling 349,735 gross tons.

The quality of the Greek tonnage has however reportedly improved, with about 83 per cent of newly-built ships delivered to Greek shipowners and most of the high-quality second hand vessels, going to the Greek registry.

What shipowners say they would like to see, is a government guarantee for all shipping loans. "Even at a time of crisis, shipping brings in hundreds of millions of dollars in valuable invisible earnings for Greece in return for zero government investment," one shipowner says. "But the Government doesn't seem to recognise this. One way would be to follow the lead of other countries and freeze, then guarantee, loans."

In terms of shipping prospects, the mood in Piraeus today is moderately optimistic. Shipowners say the rescheduling of Third World debt has led to a limited initial recovery which will develop in 1985.

Andriana Ierodiaconou

Hong Kong retains financial strength

"SHIPPING today," said Mr C. H. Tung, "is really no joking matter. It is so bad we can hardly smile."

Most people in the industry would readily echo those remarks, made at a recent Seatrade conference in New York. But they would probably also envy the resilience and relative financial strength of the Colony's major shipowners, even though the plight of the shipping markets has not left them totally unscathed.

Along with Sir Y. K. Pao, head of World International, and Mr Frank Chao, who runs Wah Kwong's shipping side, Mr Tung is one of Hong Kong's leading shipowners. All three head companies which have benefited from financial conservatism and well-timed investments.

But while the top companies provide few excitements in stock market terms—and those running them tend to steer well clear of personal publicity—the Colony has had its share of upsets on the shipping scene recently.

Not the least of these was the collapse of the Carrian group, which built up a large property empire before succumbing last year to its overstretched ambitions and vast indebtedness. Carrian had acquired Grand Marine Holdings and boosted its fleet, which then had to be gradually sold when the parent ran into trouble.

Wheelock Maritime, part of the Wheelock Marden trading group, also made awkward headlines by turning in heavy losses in the past two years. It has a large fleet, but much of it was exposed to the spot market, where rates have been low. The result was a severe liquidity squeeze.

Hong Kong owners, who have relied extensively in the past on long-term charters (notably with Japan), are now having to think more flexibly. Local bankers point out that joint ventures with European partners will have to take the place of steady charters, as markets become more variegated.

The big companies have diversified strongly. World International has strong local property and hotel interests, while Orient Overseas (Holdings) Ltd — the publicly quoted company of the Tung group — owns international terminals, office blocks, and insurance interests.

Low taxes and the Colony's operational freedom have helped its shipowners. But even their faith in the industry is being harshly tested by the present tough shipping environment, not to mention the problem of Hong Kong's future.

A.F.

Japan losing competitive edge

JAPANESE shipping companies have found nothing but troubles since the turn of this year. Newspapers bave been busy with reports of Japan Line and Sanko Steamship's finaocial reconstruction by liquidating their VLCC tankers, and the story that four out of six major shipping lines were in the red in their business results ended March 1984.

Japan's merchant fleet, one of the largest in the world, is facing a turning point, as seaborne cargo movement slackens, reflecting Japanese industry's increasing tendency towards light-weighted, compact and high-value-added products.

Japanese lines have lost their competitive edge in their international operations. The country'a crews cost three to five times more than those of flag of convenience vessels and there is increasing competitioo from developing nations. The rising cost of Japanese crews reduced the ratio of Japanese flag ships in the country's merchant fleet to 56 per cent in 1982, from 75 per cent in 1970.

The problem is blamed oo the Governmeot's 20-year-old shipping policy which is outdated and restricts shipping lines from running flexible and effective operations. The 1964 policy integrated small lines into the six major lines so as to avoid excessive competition and to strengthen international competitiveness.

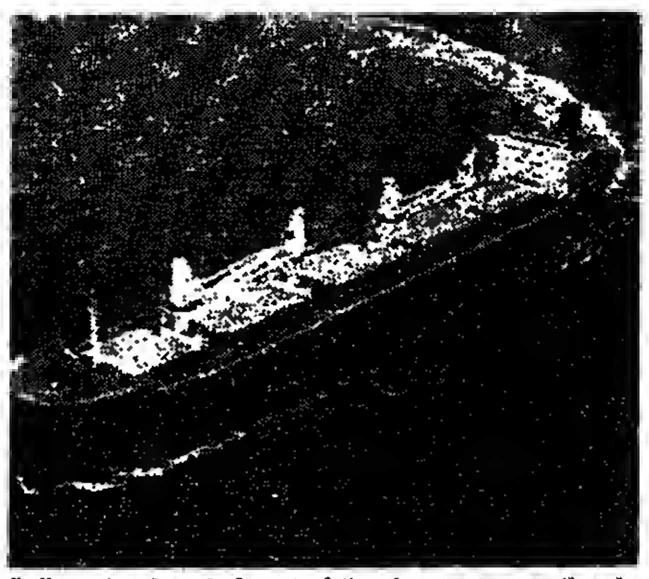
At first the system worked well and the merchant fleet expanded to 41.6m gross tons in 1982, from 10.8m tons in 1964 (Lloyds Register of Shipping).

However, the Government imposed various restrictions in return for its protection and this seriously hampered the shipping companies. Japanese flag-carriers are not allowed to hire cheap foreign crews, or engage in intermodal transport, or diversify their shipping operations.

As e result, the proportion of the six major lines in the nation's merchant fleet declined to 40 per cent in 1983 from 80 per cent in 1964, as medium and small lines, free from government restrictions have gained their strength by chartering the flag of convenience ships.

To work out new policies for the shipping industry from 1985, and to cope with new international order such as a new U.S. maritime law which will be effective in June 1984, the Government has set up the Council for the Rationalisation of Shipping and Shipbuilding Industries to conduct a comprehensive study.

Yoko Shibata



Bulk carriers have had a mixed time in recent years, though rates are improving as trade picks up. The Goldean Alliance was built in Hiroshima for a Japanese company. Able to carry grain, coal, ore and timber, it can sail into the Great Lakes

UK COMPANY NEWS

Lonrho makes new board resolutions

Lonrho has made a further move to nominate new directors to the board of House of Fraser, the department store group. Late on Friday evening, Lonrho delivered requisitions for five new resolutions to be put at Fraser's annual general meeting to Fraser's Glasgow office.

The move followed the reference to the Monopolies Commission on Friday morning, of the Lonrho/Fraser situation. The reference was effectively caused by Lonrho's earlier attempt to nominate 12 Fraser directors, six of whom were also Lonrho directors and the rest were, argued Lonrho, independent.

It is not yet clear whether Lonrho, which owns 29.99 per cent of Fraser's shares, will withdraw the earlier resolutions. "That depends on developments," said Mr Paul Spice, a Lonrho director, yesterday.

The five resolutions nominate four directors for election. Mr Spicer was not prepared to disclose their identities, but Mr Ernest Sharp, a Fraser director, said he believed them to be Mrs Jennifer d'Abo, chairman of the Ryman group, Mr Alexander Gilmour, a former senior partner of Carr Sebag, at one time stockbrokers to Lonrho, Mr George Copus of Standard Chartered Bank and Mr Ronald Aitken.

The fifth resolution seeks to prevent Fraser from taking any action during the period of the MMC reference which would prejudice the demerger of the Harrods store.

Mr Sharp said "we would regard these resolutions as equally unattractive as the original ones. Our view is that they are not independent names."

The Fraser AGM has been postponed from the original date of June 28. Mr Sharp explained that the announcement of the MMC reference effectively held up the meeting because the notice convening it would have to set out any resolutions to be moved. The MMC will have to rule whether the resolutions can be put.

Under company law Fraser is required to hold its AGM by the end of September, and three weeks' notice of the meeting has to be given.

Fraser is now arguing that Lonrho's move to appoint four directors—and there are four unfilled seats on the Fraser board which will allow a maximum of 18 directors—will alter the status quo during a time when a Monopolies and Mergers Commission inquiry is under way.

Fraser is to ask the Secretary of State for Trade and Industry, Mr Norman Tebbit, for a ruling.

Indications at the weekend that Lonrho might oppose the re-election of two Fraser directors—Professor Roland Smith, the chairman, and Mr Ernest Sharp, a non-executive director—has angered the Fraser board. Fraser is arguing that such a move will also alter the status quo.

Mr Roland "Tiny" Rowland, Lonrho's chief executive who has a seat on the Fraser board, is running for re-election at the stores group. But Fraser is unlikely to challenge the re-election of Mr Rowland as it is arguing that all existing directors should be re-elected.

COMPANY NEWS IN BRIEF

Lloyds Bank International is arranging a £100m medium term stand-by facility on behalf of Sears Holdings. The facility is being syndicated among a limited number of UK and North American banks.

There is no present intention to utilise the facility. Lloyds Bank International is the agent bank, and terms have not been released.

* * *

The following securities have been added to the FT Share Information Service:

Biotechnology Invs (Section: Trusts, Finance, Land)
Fledgeling Japan Invs (Ord & Warrants) (Trusts, Finance, Land)
Meadow Farm Produce (Foods)
New Zealand Oil & Gas (Oil & Gas)
Plantation & General Invs (Plantations, Teas)
Ramco Oil Services (Industrials)
Waber Hldgs (Property)

* * *

The issue of securities in Sentinel Vehicles to raise £945,000 before expenses was completed on June 1. The issue which has been subscribed by six new institutional investors, comprised 50,400 ordinary £1 shares at £15 each and £189,000 nominal of 11.5 per cent subordinated debentures 1989-93 at par.

Following the issue the ordinary share capital of Sentinel is valued at about £1.6m. The issue was made in conjunction with J. Henry Schroder Wagg and Co.

Sentinel, formed in November 1981, is based in Hampshire and has developed its own glass reinforced plastic product known as "Sentinax" which is used for armouring cash-in-transit vehicles and for other physical security applications.

The main purpose of the issue is to provide funds to repay loans and to finance planned expansion.

* * *

The Berry Pacific (Sterling) Fund has announced an amendment to results for the period from April 1 1983 to the end of December 1983, when net income should be £94,551 and not £473,342 as stated by the company at the end of last March.

The incorrect figure contained income carried forward from the previous period to the end of March 1983.

* * *

The directors of English National Investment have pointed out that a proposed capitalisation of shares announced with the results for the year to end-March 1984 are still under consideration and will not be sent with the annual report to shareholders.

The capitalisation proposals are on the basis of one new preferred ordinary for every two preferred ordinary and for every two deferred ordinary shares.

* * *

Progress made in restructuring at Howard and Wyndham is shown in the results for 1983, say the directors. Pre-tax losses have been reduced from £312,000 to £85,000, although second half profits are down from £225,000 to £145,000.

Sales moved ahead from £3.89m to £4.76m.

The company now has a 38 per cent holding in W. H. Allen and Co and 35.8 per cent in CIRO Inc.

The directors of this publisher and retail jeweller say that both associates are now free of net debt and generating substantial internal growth.

Remaining problems of expensive long-term debt, arrears on preference shares and negative reserves were caused by non-recurring events and the directors say they will be resolved by a proposed capital reconstruction and rights issue.

There is again no dividend—the last was in 1979.

* * *

An increase in pre-tax profits from £458,000 to £677,000 has been shown by Grainger Trust for the first six months to the end of March 1984. Turnover of this USM property investor grew from £1.48m to £2.18m.

The net interim dividend has been lifted from 1p to 1.25p and the directors expect to recommend dividends for the year totalling not less than 4.8p (4.2p). Midway earnings per 25p share were shown at 8p (5.3p adjusted).

Although the directors anticipate a satisfactory second half they do not expect the ratio of first to second half profits to match that of last year. Profits for the second six months last time came to £758,000.

* * *

Retiring chairman, Mr A. Rampton, told members at the Freemans agm that sales for this year were slowly but steadily moving ahead once more. Recruitment of agents was on target despite raising numbers back to normal recruitment levels after sharply lowering them last year, even though raised requirements for credit-worthiness meant turning many away.

In the last full year pre-tax profits rose to £14.13m (£6.38m) on turnover of £319.08m (£315.02m).

Mr Rampton was confident that the company would be able to expand market share by finding the goods and giving the service that agents and customers wanted in the future, just as in the past.

He pointed out that borrowings were at a similar level to 1981 while capital worth had risen in the intervening years.

Waterford Glass-Carroll link up

Away from the smoke

BY BRENDAN KEENAN

A merger between the two Irish companies, Waterford Glass and Carroll Industries, such as is now under discussion, will be the biggest of its kind and would catapult the resulting group into the top three Irish companies, by size.

It would also fulfil a long-standing ambition of Carroll's chairman Mr Don Carroll, to create an Irish company large enough to compete in world markets.

The two companies announced on Wednesday that they had begun preliminary discussions which might lead to some form of association between them. A month earlier, Waterford Glass said it was talking to a number of parties with a view to a take-over of the group. It is assumed that these were foreign companies, and that the talks have come to nothing, leading to the merger discussions.

A combined Carroll and Waterford group would have annual sales of over I£450m. Carroll's sales are slightly larger, but Waterford is much the bigger employer, with over 7,000 workers.

There are long-term fears whether the traditional craft of glass making by hand can survive modern automated techniques.

Waterford, presently, has a market value of around I£90m and Carrolls of I£60m.

Proposals for a merger go back more than 10 years, when discussions involving the two companies and Irish Glass Bottle fell through. Carroll has been increasingly anxious to diversify from its basic tobacco business, but a joint venture with the U.S. Fieldcrest company, to manufacture towelling, failed, with a I£5m loss for Carroll.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Finals—Airflow Streamlines, Anglo American Corporation of South Africa, Combined Technologies, Dom International, Ecobric, Mnemos, Portsmouth and Sunderland Newspapers, Tozer Kemsley and Millbourn.

FUTURE DATES

Finals—
Amersham International .... June 11
Barlows .... June 5
BPB Industries .... June 27
Churchbury Estates .... June 7
Great Northern Telegraph .... July 2
Johnson Matthey .... June 20
Law Land .... June 7
Locker (Thomas) .... June 12
Prop & Reversionary Invests .... June 7
Rowlinson Securities .... June 19
Scapa .... June 14

BIDS AND DEALS IN BRIEF

British Syphon has received acceptances of its offers for James Halstead in respect of 39,595 ordinary shares (0.28 per cent) and 52,475 preference shares (26.24 per cent). The offers have been extended until 3pm on June 15.

British Syphon did not hold any shares of Halstead prior to the offer period and has not acquired any otherwise than pursuant to the offers.

* * *

Frank G. Gales has entered into contracts with the Commission for New Towns for the purchase for £250,000 cash of the freehold reversion to its premises in Harlow, at present held under leases expiring in 2058.

The company has contracted with Esso Petroleum for the sale of the petrol filling station, with goodwill and equipment, at Edinburgh Way, Harlow, for approximately £454,000 cash.

It has also contracted with Esso for the sale for £250,000 cash of part of the freehold premises with the benefit of planning permission for a petrol filling station at Woodford Green, Essex.

* * *

Arlington Motor Holdings completed the purchase of the freehold of an industrial property in Brimsdown, Enfield, Middlesex, for £1.05m. The site occupies and area of about four acres.

The directors intend to relocate the company's Bedford van and truck franchise activities from nearby Ponders End. These will occupy about half of the available land and buildings. The remainder of the site will be used to establish a regional bus and coach service depot in conjunction with Leyland Bus, and to permit a relocation of the group's bust and coach sales branch from Potters Bar, Middlesex.

* * *

Spear and Jackson International has issued to John Brown 305,693 new ordinary shares, credited as fully paid, as consideration for the acquisition of the saws division of Firth Brown Tools.

Application has been made for the shares to be admitted to the Official List, and they have been placed with investment institutions on behalf of John Brown by Hoare Govett.

SHARE STAKES

Automated Security (Holdings)—T. V. Buffett, a director, has disposed of 208,000 ordinary shares at 160p and now holds 2,876,498 (5.3 per cent).

Cardinal Investment Trust — Grenfell and Colegrave on behalf of a client of an associate has sold 80,000 deferred shares at 143p.

English and Scottish Investors —The Water Authority Superannuation Fund has bought 3,245,000 ordinary shares and 3,245,000 new ordinary shares and now holds 9,770,000 shares (12.3 per cent).

Martin Ford—M. D. Ford, a director, has sold 25,000 beneficial ordinary shares.

Home Charm—S. G. Saideman, H. E. Fogal and R. Rimington directors, have disposed of their non-beneficial interest as trustees of 35,360 ordinary.

Anglo - American Securities Corporation — Standard Life Assurance has acquired 110,000 shares bringing its total holding to 8,021,119 shares (14.057 per cent).

Dufay Bitumastic — Cecil Attwood, chairman, has sold 120,000 ordinary.

Pleasurama — Lord Harmar-Nicholls has disposed of 65,148 shares.

Cadbury Schweppes — Sir Adrian Cadbury has sold 118,000 non-beneficial shares and N. D. Cadbury disposed of 200,000 non-beneficial shares. He also purchased 75,000 beneficial shares.

Expamet International—Rodney Daffern has disposed of 13,000 ordinary, altering his beneficial holding to 9,500 shares.

Anchor Chemical — Hon Anthony Hewlett, director, has purchased 10,000 ordinary increasing his total holding to 40,000 shares.

Haronson—Provident Mutual Assurance has increased its holding in ordinary shares to 1,475,000 (5.32 per cent).

NSS Newsagents—Ryam-Cook and Spouse have disposed of 8,000 ordinary shares.

Francis Industries—Suter have bought 800,000 ordinary.

Fleming Universal Investment Trust—County Bank and associates now hold 1.1m ordinary (5.05 per cent).

Nottingham Brick — Lloyds Register of Shipping Superannuation Fund Association has disposed of 467,000 (4.94 per cent) and now holds 121,000 (1.28 per cent).

Ailsa Investment Trust — County Bank has acquired 2.575m ordinary shares (5.12 per cent).

Bisichi Tin Company — Jantar now holds 1.48m shares (22.6 per cent).

F. J. C. Lilley — Globe Investment Trust is now interested in 4m ordinary (5.04 per cent).

British American and General Trust—Investment clients of Geoffrey Morley and Partners now own 9.625m ordinary.

Bridgewater Estates—Mr John Whittaker, chairman and managing director of Peel Holdings, has been appointed a non-executive director of Bridgewater as a nominee of Largs which holds 23.5 per cent of Bridgewater. Largs plans to retain its shareholding as a long-term investment and it hopes to contribute to the further development of the company as a separate and independent company.

Greene King and Sons—Britannic Assurance's beneficial holding has been increased to 2.29m ordinary.

Pifco Holdings—brokers to the company purchased 5,000 A ordinary on behalf of the company.

FINANCIAL TIMES STOCK INDICES

	June 1	May 31	May 30	May 29	May 25	May 24	1984 High	1984 Low	Since Compilatn High	Since Compilatn Low
Government Secs.	78.69	78.07	77.86	78.20	78.15	78.11	83.77	78.07	127.4	49.18
Fixed Interest	82.70	82.48	82.39	82.62	82.56	83.22	87.48	82.36	150.4	50.53
Industrial Ord	824.5	796.9	803.4	808.2	827.9	826.4	922.8	770.3	922.8	49.4
Gold Mines	598.1	681.3	679.2	680.5	662.5	653.7	711.7	620.2	734.7	43.5
FT-Act. All-Share	490.00	477.21	482.21	494.67	495.29	498.81	536.71	470.05	536.71	61.92
FT-SE 100	1058.8	1021.0	1029.5	1056.1	1058.5	1061.5	1141.5	997.5	1141.5	997.5

LADBROKE INDEX
Based on FT Index
812-818 (+24)
Tel: 01-493 5261

RECENT ISSUES

EQUITIES

Issue price	Amount paid up	Latest Renunc. date	1984 High	1984 Low	Stock	Closing price	+ or −	Net div.	Times covered	Gross Yield	P.E. Ratio
670	100	10/6	108	63	Assoc Brit Ports	67	......	8.5	2.8	5.1	8.9
100	£5	2/11	67	61	BaillieGiffordTechngy	51	−1	—	—	—	—
§05	F.P.	10/6	610	145	✠Body Shop 5p	150	−5	n1.6	8.3	1.7	88.5
§140	F.P.	15/6	175	136	✠Brikat 5p	138	−6	bg2.0	3.1	2.1	19.9
**	F.P.	—	58	12½	✠Cluff Oil Warrants	24	......	—	—	—	—
120	F.P.	12/7	47⅛	120	Comcap 5p	120	......	gd1.5	3.7	1.8	16.6
342	F.P.	22/6	48	41	Delaney Group 10p	41	......	u2.2	2.2	7.7	7.0
135	F.P.	15/6	170	198	Greggs 20p	146	......	u6.4	6.7	6.4	12.5
§93	F.P.	—	107	94	✠HoldenHydr'm'n10p	107	+2	u3.25	3.8	4.3	9.4
180	F.P.	—	200	166	✠Microvitec 5p	173	+7	ug1.25	5.0	1.0	32.8
§10	F.P.	22/5	18	15½	✠Morris(W.)FineA10p	15½	+2	bg0.25	4.0	2.3	14.2
§58	F.P.	27/4	80	67	OspreyCommunic'tns	67	−5	N1.0	—	2.5	—
§80	F.P.	25/5	104	93	✠Pantherella	93	......	n3.3	9.5	5.1	11.3
80	F.P.	—	86	76	✠Petrogen Pet. Inc.	80	......	—	—	—	—
§60½	F.P.	18/5	80	55	✠Plan Invest. 10p	58	......	u1.1	6.6	2.7	14.6
70	F.P.	18/6	76	68	SPRAIT 50p	63	+1	Qb3.6	—	5.6	—
50	F.P.	15/6	66	43	Do. Warrants	45	......	—	—	—	—
120	F.P.	15/6	198	116	Do. Cum Pt. Prf.	115	......	Q9%	—	7.8	—
§110	F.P.	15/6	126	114	✠Stat - Plus 5p	114	......	u1.8	3.3	2.3	17.8
§110	F.P.	—	140	126	✠SteelBurrillJones10p	128	......	b4.9	6.3	6.6	11.4
95	F.P.	22/6	110	100	✠Sutherland (E.T.)	100	......	u3.33	1.0	4.8	16.0
—	F.P.	—	48	30½	Utd. Biscuits Warr'nts	32	+1½	—	—	—	—
¶285	F.P.	8/6	320	275	Wordplex 50p	277	+2	H1.7	—	0.9	11.7

FIXED INTEREST STOCKS

Issue Price £	Amount paid up	Latest Renunc. date	1984 High	1984 Low	Stock	Closing price £	+ or −
98.19	£26	27/7	26⅞	22	Border & S'thern 11½% Deb. Stk. 2014	22	......
§100	F.P.	6/6	105	100	Brittannia Arrow 9% Cnv.Uns.Ln. 95/2000	101	+1
97.072	£20	1/7	98⅝	62¼	Brixton Est.11¼pc 1st Mort. Deb. 2026	65	+⅝
96.764	£26	—	64¼	21⅝	EDF 11¾% Ln. 2009/16	22⅝	+1
98.043	£30	26/6	30¾	24⅛	Finland 11½% Ln. 2009	66¾	+1¼
99.714	F.P.	26/4	105¾	98¼	Int. Bk. for Rec. & Dev. 11.5% Ln. 2003	96¾	+1½
§95.711	F.P.	15/5	106¼	90½	MEPC 10¾pc 1st. Mort. Deb. 2024	91¼	+⅜
—	F.P.	—	100	98½	Nationwide 9⅞% 7/5/85	98½	......
—	F.P.	—	100⅛	100	Do. 11% 3/6/85	100⅛	+⅛
¶99.50	£10	—	9½	8½	Portsmouth Water 7¼% Red. Prf. 1987	9½	......
§97.80	£26	12/7	50½	25⅝	Province de Quebec 12¾% Ln. 2020	64⅝	+1
98.641	£30	7/8	60	86¼	Trinidad & Tobago 12¼% Ln. 2009	27	+⅜

"RIGHTS" OFFERS

Issue price	Amount paid up	Latest Renunc. date	1984 High	1984 Low	Stock	Closing price	+ or −
88	F.P.	28/5	95	76	Amstrad 5p	78	−2
R2.6	Nil	—	250pm	200pm	Anglo American Ind. Corp.	850pm	......
17	Nil	—	½pm	¼pm	BSG Intnl. 10p	½pm	+¼
Ir.350	Nil	—	22pm	2pm	Bank of Ireland £1	2pm	−1
260	F.P.	24/5	397	300	Bank of Scotland £1	513	+1
90	Nil	—	9pm	½pm	Benlox 10p	½pm	......
A87.5	A84	2/6	642	384	Broken Hill Prop. A$2	596	+12
70	F.P.	16/5	87	76	Brown Boveri Kent	76	−5
10	F.P.	24/5	13	10	Ferguson (James) 10p	10	......
85	F.P.	20/5	78	69	Fisher (A) 5p	69	−2
a 27	F.P.	18/5	£17⅛	£16¼	Concor 40s	£15¾	+¼
52	F.P.	17/5	64⅛	67	Nolt Lloyd Intnl. 10p	51	+4
25	F.P.	7/5	20	25	✠Intervision Video 10p	25	−1
38	F.P.	66/5	81	47	Manganese Bronze	47	......
6	Nil	11/5	20pm	16pm	Norfolk Cap. 5p	18½pm	−1½
4	F.P.	81/5	8	6	Norton (W.E.) 1p	7½	+1
A84	Nil	—	120pm	100pm	Santos A0.25c	110pm	+10
155	F.P.	21/5	166	148	Scottish TV 'A' 10p	148	......
20	F.P.	23/6	65	19	Wace Group 20p	20	+1
84	F.P.	26/5	169	117	Webstera 5p	118	+1
68	F.P.	18/6	90	66	Whatlings	86	+4
117	F.P.	25/5	137	134	Williams Hldgs	140	−5

Renunciation date usually last day for dealing free of stamp duty. *b* Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. *g* Assumed dividend and yield. *u* Forecast dividend cover based on previous year's earnings C Canadian F Dividend and yield based on prospectus or other official estimates for 1984. H Dividend and yield based on prospectus or other official estimates for 1983-84. Q Gross. *p* Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment letters (or fully-paid). ‖‖ Introduction. ✠ Unlisted Securities Market. § Placing price. †† Official London Listing. ‡ No par value.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

Company	Date	Announcement last year
*Amersham Intl.	June 11	Final 2.1
*Anglo American Corp SA	June 4	Final 75c
Argyll Foods	June 21	Final 2.5
Assoc Newspapers	July 14	Interim 4.5
*Avana	June 29	Final 4.5
*BPB Inds.	June 27	Final 7.0
Baker Perkins	June 28	Final 3.0
Beecham	June 2	Final 5.0
Berisford (S. & W.)	June 20	Interim 3
British & Comm Shipping	June 16	Final 8.5
*Bumett & Hallamshire	June 22	Final 8.5
Cable and Wireless	June 13	Final 5.0
*Carless Capel.	June 5	Final 1.75
*Charter Cons	June 27	Final 7.25
*Chloride	June 15	Final nil
Chubb	June 22	Final 4.00
Crest Nicholson	June 22	Interim 1.25
Daejan	July 13	Final 3.825
Daily Mail & Gen.Trust	July 15	Interim 12.0
*Dawson Intl	June 21	Final 4.3
*De La Rue	June 5	Final 16.9
Distillers	July 14	Final 6.5
Dowty	July 12	Final 2.25
*Electronic Rentals	June 7	Final 2.066
Elliott (B.)	June 6	Final nil
*English China Clays	June 14	Interim 3.25
*Ferguson Indl.	June 12	Final 3.5
Fairenil	June 23	Final 2.7
Fitch Lovell	July 7	Final 5.83
GEC	July 7	Final 2.0
*Great Portland Estates	June 12	Final 4.0
Greycoat City Offices	July 14	Final 0.65
*Guinness (A).	June 12	Interim 1.655
Hambros	June 21	Final 37.5
*Henson Tmst	June 5	Interim 2.0
Haslemere Estates	July 14	Final due
Hickson Intl	June 2	Interim 3.0
*Hill Samuel	June 5	Final 6.3
IC Gas	July 6	Final 7.8
Imperial Group	July 14	Interim 2.75
Intasun	July 5	Final 2.8
Intl Signal	June 14	Final don
*Johnson Firth Brown	June 6	Interim nil
*Johnson Matthey	June 20	Final 7.0
Kenning Motor	June 14	Interim 2.5
LRC Intl	June 27	Final 2.2
London O'seas Freighters	June 17	Final nil
*MK Elec	June 28	Final 5.25
*McCorquodale	June 6	Interim 3.75
Magnet and Southerns	July 12	Final 2.2
*Metal Box	June 12	Final 6.51
*Meyer Intl	June 18	Final 2.25
Neicros	July 4	Final 4.24
*Northern Foods	June 20	Interim 2.25
*Pauls and Whites	June 14	Final 6.5
*Pegler-Hattersley	June 6	Final 7.86
*Pilkington Bros	June 13	Final 5.5
Powell Duffryn	June 22	Final 9.55
*Premier Cons	June 12	Interim 10%‡
*Racal Elec	June 26	Final 4.114
Rank Drgn	July 11	Interim 4.0
*Redland	June 28	Final 5.14
*Reed Intl	June 5	Final 10.0
Rothmans Intl	July 12	Final 4.0
SGB	July 4	Interim 2.3
Scottish and Nwcstle Brws	June 29	Final 3.163
*600 Group	June 7	Final due
*Sketchley	June 6	Final 2.4
Staveley Inds	June 16	Final 8.5
Tesco	June 15	Final 2.25
Thorn EMI	July 14	Final 11.7
*Tozer Kemsley	June 4	Final oil
*Trident TV	June 5	Interim 1.5
Trusthouse Forte	June 23	Interim 2
Unigate	July 7	Final 4.3
Vosper	July 14	Interim 2.0
Wedgwood	June 21	Final 2.675
*Westland	June 13	Interim 1.0

* Board meeting intimated. † Rights issue since made. ‡ Tax free. ‖ Scrip issue since made. ¶ Forecast.

Closing prices June 1

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
20¾	13¾	AAR	.44	2.2	21	104	19⅞	19½	19⅞	+ ⅛
53	31½	ACF	1.40	2.3	143	198	53	52⅝	53	+ ⅜
18⅞	13⅛	AMF	.30	3.2		579	15¼	14⅞	15⅛	+ ⅜
41¼	28⅝	AMR Cp			5	4349	32⅝	31⅝	32⅝	+ ⅞
20⅝	17½	AMR	pf2.18	11		192	20	19⅝	20	+ ⅛
41⅛	29⅝	AMR	pf2.13	8.2		741	34½	33⅛	34½	+ 1
26⅛	23	ANR	pf2.67	11.		1	23¾	23¾	23¾	− ⅛
16¾	8¼	APL			4	51	11⅞	11⅜	11⅛	− ¼
55¼	40¼	ARA	2.10	4.7	9	175	45	44½	45	+ ¼
73⅞	50¼	ASA	3a	4.7		1255	64½	62¼	63⅝	+ 1¼
32¾	17	AVX	s .32	1.5	18	234	21⅛	20⅜	21⅛	+ ⅜
53⅜	38¼	AbtLab	1.20	2.9	14	2640	40¾	39½	40⅝	+ 1¼
30¼	23¼	AccoWd	.60	2.3	16	112	26¾	26½	26¾	+ ¼
27½	18½	AcmeC	.40	2.1		20	18¾	d18¾	18¾	+ ¼
13	8½	AcmeE	.32b	3.8	23	6	8½	d8⅜	8⅜	− ⅛
24⅜	11	AdmDg	.04	.3	7	65	12½	12	12⅛	− ⅛
18¾	15⅛	AdaEx	2.11e	14		95	15⅝	15¼	15⅜	
19¾	11⅜	AdmMl	.28	1.7	8	8	16⅜	16⅜	16⅜	
30	13½	AdvSys	.811	5.2	15	78	15½	15½	15½	
18½	8¼	Advest	.12	1.4	11	16	8⅝	8¼	8¼	
37½	24⅛	AMD	s		26	3727	32½	31⅞	32⅛	+ ½
24⅜	9⅝	Aeflx	s		10	416	10¼	9¾	10¼	+ ⅛
42¾	30⅛	AetnLf	2.64	8.4	17	2115	31½	30⅝	31⅛	+ ¼
59⅛	54½	AetL	pf5.28e	9.3		54	57¼	57	57	
35⅞	15¼	Ahmns	1.20	8.8	4	1533	18⅜	17¾	18⅛	+ ⅞
7⅛	3⅛	Aileen				11	3½	3¼	3½	+ ⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 25

AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices June 1

Continued on Page 26

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued from Page 24

X—Y—Z

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
52¼	35¾	Xerox	3	7.9	9	2121	38¼	37½	38⅛	+ ⅜
61⅛	45⅝	Xerox	pf5.45	12.		87	45	45	45	
37	21⅛	XTRA		2.8	8	185	23¼	23	23	
34	24	ZaleCp	1.28	4.7	8	318	35¼	25	25¼	+ ½
24⅝	15½	Zapata	.84	3.8	14	393	22⅜	22	22⅜	+ ⅜
47½	28¾	Zayre	s.40b	1.1	10	1409	35½	33½	35¼	+ 1⅛
36⅝	21⅛	ZenithE			11	1031	25¼	25¼	25⅛	+ 1½
27⅝	18	Zero	s .36	1.9	16	8	19¼	19	19⅛	+ ⅛
37⅛	21¼	Zurnin	1.32	5.9	12	132	22½	21⅞	22½	+ ½

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the *Bankruptcy Act*, or securities assumed by such companies. wd–when distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

WORLD STOCK MARKETS

OVER-THE-COUNTER

Nasdaq national market, closing prices June 1

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Continued on Page 27

AMERICAN STOCK EXCHANGE CLOSING PRICES

Continued from Page 25

[illegible]

CANADA

TORONTO

Closing prices June 1

[illegible]

MONTREAL

Closing prices June 1

[illegible]

BELGIUM/LUXEMBOURG

1984 High	Low	June 1	Price Frs.
1,855	1,220	ARBED	1,600
5,200	4,965	Banq Int A Lux	5,000
4,420	3,105	Bekaert B	4,080
2,465	2,010	Ciment CBR	2,420
328	175	Cockerill	308
5,860	4,750	Delhaize	4,800
2,790	2,290	EBES	9,470
7,150	5,850	Electrobel	7,050
2,425	1,950	Fabrique Nat	1,950
3,595	3,050	GB Inno BM	3,110
2,800	2,255	GBL (Brux)	2,300
5,300	9,970	Gevaert	5,290
6,450	5,000	Hoboken	5,400
2,175	1,805	Intercom	1,865
7,500	5,280	Kredietbank	7,390
10,000	9,025	Pan Hldgs	9,850
8,210	6,010	Petrofina	6,970
2,580	7,320	Royale Belge	2,470
5,890	2,900	Soc. Gen. Banq	5,060
1,230	1,680	Soc. Gen. Belge	1,740
6,840	5,190	Sofina	5,070
4,355	3,680	Solvay	4,110
4,390	3,125	Tractionel	3,725
5,440	3,795	UCB	4,660
4,950	3,700	Vieille Mont.	3,940

DENMARK

1984 High	Low	June 1	Price Kr. %
480	325	Aarhus Olie	380
352	217	Andelsbanken	912
703	510	Baltic Skand	650
350	207	CopHandelsbank	236
850	390	D. Sukkerfab	600
335	205	Danske Bank	225
918	165	East Asiatic	175
1,250	650	Forenede Brygg.	855
198	150	Forenede Damp.	161
700	445	GNT Hldg	480
725	510	I.S.S.B.	550
760	443	Jyske Bank	650
3,150	2,150	Novo Ind.	2,156
372	217	Privatbanken	228
370	262	Provinsbanken	307
300	207	Smidth (F.)	215
1,375	955	Sophus Berend.	295
588	436	Superfos	445

NORWAY

1984 High	Low	June 1	Price Kronor
190	142.5	Bergens Bank	168
340	213	Borregaard	280
120	151	Christiania Bk.	171
188.5	132	Den Norsk Credit	133
127.5	153	Elkem	146
393	232	Norsk Data	500
682	312.5	Norsk Hydro	660
272.5	186	Storebrand	220

GERMANY

1984 High	Low	June 1	Price Dm
102.8	82.5	AEG-Telef.	94.5
840	740	Allianz Vers.	740
179.2	168.3	BASF	162.8
185.5	181	Bayer	168.5
304	268	Bayern-Hypo	277
358	313	Bayers-Verein.	317
313	268	BHF-Bank	968
458	374.3	BMW	374.5

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FRANCE

[illegible]

NETHERLANDS

[illegible]

AUSTRIA

[illegible]

ITALY

[illegible]

AUSTRALIA

1984 High	Low	June 1	Price Aust. $
6.14	3.10	ANZ Group	3.14
1.80	1.45	Acrow Aust	1.55
0.90	0.52	Alliance Oil D.	0.52
2.11	1.60	Ampol Pet	1.3
1.82	1.65	Aust Cons Ind	1.57
3.10	2.45	Aust Guarant	2.43
2.75	1.90	Aust Nat Inds	1.95
2.46	1.80	Aust Paper	1.2
6.40	4.0	Bell Group	4.2
1.52	1.20	Bond Corp Hldgs.	1.9
3.53	3.08	Boral	3.17
2.72	2.05	B'ville Copper	2.1
5.52	9.50	Brambles Inds	2.8
3.82	2.35	Bridge Oil	2.4
19.15	9.58	BHP	2.68xd
6.20	4.85	CRA	4.96
4.28	5.03	CSR	3.03
4.23	3.82	Carlton & Utd.	4.1
3.53	4.08	CastlemaineTys.	4.25
4.13	3.37	Coles (G.J.)	3.46
3.22	2.15	Comalco "A"	2.2
1.30	0.47	Consolidated Pet	0.3
1.40	1.12	Costain Aust.	1.2
1.74	1.46	Dunlop Aust.	1.48
6.40	4.25	E.Z. Inds.	4.4
4.56	3.50	Elders IXL	3.7
1.80	1.30	Energy Res.	1.4
2.30	1.85	Gen Prop Trust	9
3.95	9.98	Hardie (J.)	2.98
3.3	2.15	Hartogen Energy	2.15
3.5	2.95	HeraldW'y Times	5.1

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SWEDEN

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

SINGAPORE

1984 High	Low	June 1	Price $
[illegible]			
5.90	5.65	Fraser & Neave	5.7
6.00	4.98	Genting	5.15
2.61	9.28	Haw Par. Bros	2.29
3.65	8.69	Inchcape Bhd.	2.65
3.65	9.33	Keppel Shipyard	2.54xa
10.40	8.3	Malay Banking	9.90
7.10	6.45	Malay Brew.	6.55
2.27	1.64	Multi Purpose	1.69
11.80	8.55	OCBC	15.0
4.90	4.18	OUB	4.38
2.97	2.15	Sime Darby	2.25
1.98	1.48	Straits St'mship.	1.52
6.95	5.3	Straits Trdg	5.3
5.90	4.88	UOB	4.9

HONG KONG

1984 High	Low	June 1	Price H.K.$
29.7	18.8	Bank East Asia	21.3
10.5	7.95	Cheung Kong	5.25
14.3	10.5	China Light	11.4
2.97	1.85	Hang Lung Devel.	2.35
47.0	33.3	Hang Seng Bank	33.73
7.4	5.1	HK Electric	5.55
4.7	3.35	HK Kowloon Wh.	3.6
4.3	2.9	HK Land.	2.95
7.76	6.22	HK Shanghai Bk.	6.13
49	35.3	HK Telephone	42
15.6	10.6	Hutchison Wpa	11.3
14.3	8.65	Jardine Math.	3.75
4.08	2.23	New World Dev.	3.07
2.87	2.39	Orient O'seas	2.4
4.0	2.75	O'seas Trust Bk.	2.9
8.3	5.4	SHK Props	6.15
91.0	14.0	Swire Pac A	13.7
4.2	5.05	Wheel'k Mard A.	3.12
9.3	1.84	Wheel'k Maritime	1.9
2.6	1.38	World Int. Hldgs.	1.95

JAPAN

1984 High	Low	June 1	Price Yen
1,170	980	Ajinomoto	1,100
8,960	2,530	Alps Electric	2,030
1,410	1,020	Amada	1,090
600	405	Asahi Chem.	604
819	655	Asahi Glass	690
653	527	Bridgestone	556
1,810	1,120	Canon	1,200
1,530	1,130	Casio Comp	1,220

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SPAIN

[illegible]

حقوق اعادة الآمل

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

June 5-7
Office Automation Show and Conference (Manchester 061-832 4242) **Barbican**

June 12-14
IBM Computer Users Show (01 868 4466) **Wembley**

June 25-29
The International Fluid and Mechanical Power Transmission and Control Exhibition and Conference — FLUMEX (01-828 8128) **NEC, Birmingham**

June 26-28
Computers in Personnel National Exhibition and Conference (01-946 9100) **Royal Lancaster Hotel, W2**

July 2-3
Insurance Information Exchange Exhibition (0323 642449) **City Conference Centre**

July 2-5
Royal Show (0203 555100) **National Agriculture Centre, Kenilworth**

July 5-7
International Military Helicopter and Equipment Exhibition (01-643 8040) **Middle Wallop**

July 10-12
International Satellite and Cable TV Exhibition and Conference—CABLE (01-868 4466) **Wembley Conference Centre**

July 10-12
Education Training and Development Exhibition and Conference (01-637 2400) **NEC Birmingham**

July 10-12
Great Yorkshire Agricultural Show (0423 61536) **Showground, Harrogate**

July 19-22
BBC Micro Users' Show (061-456 8383) **Alexandra Palace**

OVERSEAS TRADE FAIRS

June 4-7
Gas Turbine Exhibition and Conference **Amsterdam**

June 4-7
Robots 84 Exposition and Conference ((313) 271-1080) **Detroit**

June 4-9
Posidonia 84 — International Shipping Exhibition (01-488 2400) **Piraeus**

June 18-21
Bioenergy 84 Exhibition and World Bioenergy Conference (01-353 5151) **Gothenburg**

June 18-21
Viewdata and Communication Technology Exhibition — TELEMATICA (01-236 0911) **Stuttgart**

June 19-22
Latin American Petroleum Show (01-549 5831) **Venezuela**

June 24-27
International Fancy Food and Confection Exhibition (01-891 5051) **Washington DC**

July 2-6
International Computer Technology Exhibition—COMPUTA (01-705 6707) **Singapore**

July 12-15
Graphic Arts Show—GUTENBERG U.S.A. (01-318 0900) **Chicago**

BUSINESS CONFERENCES

June 5-6
FT Conference: The electronic office (01-621 1355) **Intercontinental Hotel, W1**

June 12-13
Oyez: The Consumer Credit Act and New Regulations—Putting the Law into Practice (01-236 4080) **Cavendish Conference Centre, W1**

June 14
Arco Chemical Europe Inc.: Second oxygenated fuels conference (01-831 9599) **Le Pavillon D'Armenonville, Paris**

June 14
Insig: Strategic planning in banking, the new payment systems choices ((1) 763.07.24) **Paris**

June 18-19
FT Conference: The European Offshore in 1984 (01-621 1355) **Oslo**

June 20-21
FT Conference: World electronics — future strategies for Europe (01-621 1355) **Intercontinental Hotel, W1** **Paris**

June 22
Henley Centre for Forecasting: Future for Business (01-353 9961) **CBI, Centre Point, WC1**

June 25-26
FT Conference: Foreign Exchange Risk (01-621 1355) **Dorchester Hotel, W1**

June 26
Stratford Financial Services: The Construction Industry after the Budget 1984, particularly the VAT implications and planning (01-235 4766) **Carlton Tower Hotel, W1**

June 26-27
The Economist: Can small firms get a fairer deal when competing with their big brothers? Breaking into foreign markets and government contracts—an international conference (01-839 7000) **London Marriott Hotel, W1**

June 26-27
Chicago Mercantile Exchange: Introductory Seminar for Options on Deutsche Mark Futures (01-920 0722) **Hilton International, Dusseldorf (June 26)** **Grand Hotel Continental, Munich (June 27)**

June 27
Oyez IBC: IOI personal tax planning points (01-236 4080) **Portman Hotel, W1**

June 29
The Industrial Society: Productive Management/Union Relations in a Competitive World (01-839 4300) **Portman International Hotel, W1**

July 1-7
The Institute of Petroleum: 10th Energy Seminar (01-638 1004) **Robinson College, Cambridge**

July 3
Macfarlane Conferences: The New Age of Pharmaceutical Marketing—maximising the effectiveness of reduced promotional budgets (01-637 7488) **Portman Hotel, W1**

July 5
Henley Centre for Forecasting: Future for Business (01-353 9961) **NEC, Birmingham**

July 10
Longman: Tax Shelter Investments after the Finance Bill (01-242 2548) **Barbican Centre, EC2**

July 12
ESC: International Commercial Arbitration (0572 822711) **Tower Hotel, E1**

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published

OVER-THE-COUNTER

Continued from Page 26

Stock	Div	Sales (Hnds)	High	Low	Last	Chng
Molex	.03	97	37¼	37	37¼	+¼
MonCa	1.40	202	32⅞	32⅜	32½	+¼
Monclk		49	7½	7¼	7¼	-¼
Moncor	.44	35	4¾	4⅝	4¾	+⅛
MonlCl		2	14¾	14¾	14¾	-¼
MonAnt		46	12½	11	12½	+2¼
Monolt s		1007	20⅝	19¾	20⅝	+¼
MonuC	1.20	137	23⅝	23⅜	23⅝	-⅛
MorFlo	.01	46	12¼	12	12	-¼
MorKg	.08e	84	9¼	8⅞	9⅛	+¼
Morrsn	.40b	42	13¾	13¾	13⅝	-¼
Moseley		183	4⅛	4⅛	4⅛	
MotClb	.20	107	17	16¾	17	+½
Multmd	.60	102	37¾	37	37¼	+½
Mylan s	.05i	811	20⅝	19⅞	20¾	+¼
N—N						
NMB		29	3	2¾	3	
NtCity s	1.60	340	27¼	26½	27¼	+½
NtCptr s	.20	294	16⅝	16¼	16½	+⅛
NData	.40	268	16¾	16¼	16⅝	+⅛
NHlthC		2	19¼	19¼	19¼	-¼
NMicr s		175	9¼	9⅛	9⅝	+⅛
NTech	j	78	4½	4⅜	4½	+⅛
NearBty		111	5⅛	5⅛	5⅛	-⅛
Neugle		238	7¾	7⅝	7¾	+⅛
NelsnT s	.16	2	12¼	12¼	12¼	
Nelson s		261	10⅛	10	10⅛	+½
NwkSec		159	5⅞	5⅝	5⅞	+¼
NtwkS		2345	21½	20½	21½	+⅞
NwkEl		84	4	3½	3⅞	+⅛
NYAirl		236	4	3⅞	4	
NY A wt		70	⅜	⅜	⅜	+⅛
Newpt s		142	18¾	17¼	18½	+⅛
NwpPh		494	5¼	4⅞	5	
NiCal g		190	5⅝	5⅜	5⅝	+¼
NichOG		1	3⅝	3⅝	3⅝	-⅛
NikeA	.76	1608	46⅞	42½	46⅞	+3⅞
NikeB	.76	105	45	42½	45	+2⅞
Nike B	.40	386	10	9⅝	10	+¼
Nordst s	.40	204	31¼	30¾	31	+½
OhioCa	2.88	216	40½	39⅞	40¼	+⅞
OldRep	.86	60	31¼	30⅝	31	+¼
OldSt pfC	2.80	22	19¼	19¼	19¼	-¼
OnLine		4	10	8	9½	-½
Onyx		475	4⅝	4¼	4⅝	+⅛
OpticC		158	22¼	21½	22⅛	+⅛
OpticR s		795	35⅞	34	35½	+1⅛
Orbit		370	5⅞	5½	5⅞	+⅛
Oshmn	.20	179	16	15	16	+1⅛
OtrTP	2.56	37	23⅝	23⅛	23⅝	+½
OwenMn	.36	84	11¼	11¼	11¼	-⅛
Oxoc		117	7⅛	6⅞	7	+⅛
P—Q						
PNC	2.12	134	38	37⅛	38	+½
PabstB s		1011	6⅜	6½	6⅜	-⅛
Paccr s	1.20	41	40¼	39¾	40	+¼
PacTel	.80	15	13¾	12¾	13	
PacoPh		32	15¾	16½	15¾	
PancM s	.10	148	6⅛	6⅛	6⅛	
Pansph		441	13⅞	13⅜	13⅝	+⅛
PeriOh	.60	222	14¼	13¾	14	-¼
PerTc s		186	12⅛	12⅛	12⅞	+½
Patrid		40	8	7⅞	7⅞	
PaulH s		28	12	11⅞	12	-¼
PaulPt		114	9⅞	9	9⅞	+½
PayN	.80	792	18¼	17⅞	17⅞	+⅝
PeerlH		65	18⅞	18¼	18½	-⅛
Pentar s	.76	193	25⅞	24½	25⅞	+⅞
PeopE s		3877	13¼	13¼	13⅜	+⅛
PeopRt		227	2½	2¼	2½	+¼
Percept		27	9⅛	9⅛	9⅛	-⅛
Petrite	1	45	27½	27	27	
Phrmct		866	18½	15	18½	+1½
PSFS		1663	7¾	7¼	7½	+⅛
PhnMat		18	2	1⅞	1⅞	
PicSav s		518	17½	16½	17¼	+½
PicCafe	.60	174	18⅞	18¼	18⅞	+½
PionHi	.80	347	26	25	26	+1
PionStd	.22	5	21⅞	21⅞	21⅞	+⅛
PicyM s		270	26	24½	26	+1
Porex		677	18¾	17⅞	18¼	+¼
PoolSt	t	47	6½	5⅞	5⅞	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TECHNOLOGY

EDITED BY ALAN CANE

REPROGRAMMABLE MEMORIES LOOK SET FOR GROWTH

Silicon chips that never forget

BY ALAN CANE

MODERN digital telephones with flashy features like last number recall and abbreviated dialling are wonderful until the power fails and the system forgets all it has been taught.

Then there's a desperate scramble to reprogram the system with all those numbers and special codes; time-consuming, irritating and frustrating.

Unacceptably frustrating, in fact, which is one reason for the growing enthusiasm for a new kind of computer memory chip which promises to put an end to these annoyances.

Other, and more dramatic, uses for the new chip include personal voice pattern records for military pilots. Versions of the McDonnell Douglas F/A 18 Hornet fighter have been fitted with this innovation. The pilot plugs his personal electronic voice card into a slot in his instrument panel so programing the aeroplane to respond to 18 spoken commands.

The chip which makes possible these useful and spectacular applications is called an electrically eraseable read only memory or EEROM. It retains the information written into it even when the power is switched off, but that information can be rewritten electronically maoy times.

The first EEROMS came on the market in 1980, but operated at 21 volts which did not commend them to microsystem manufacturers whose machines typically operate at much smaller voltages. By early 1982 the first 5 volt parts were being shipped; now Seeq Corporation, an acknowledged leader in non-volatile memories, is claiming products good for 1m programming cycles, 100 times better than the industry standard and the key to a whole range of tough new applications.

Its competitors in the EEROM business include Intel the micro-electronics giant, together with Xicor and AMD.

Seeq, founded in 1981 by a team of ex-Intel engineers and managers, says its chips are smaller, faster, more dense and —critically—more reliable than the others. With sales of $5.2m dollars in the first quarter of 1984 and a backlog of about $14m, the company look set to come into profit this quarter, a little earlier than its bankers anticipated.

Computer memory chips are broadly of two kinds. RAM, or read and write memory, where information can be repeatedly written into the chip's cells as required, and ROM, read only memory, where information once burned into the chip can be read by the computer but cannot be altered.

Turn the power off and RAM loses its memory, which is why it is suitable only for transient data and program storage. ROM keeps its memory contents independent of external power but cannot be rewritten—it is commonly used for "firmware," computer software embedded in silicon (like the BASIC programs built into home computers).

The ideal, of course, would be a memory chip which retained its contents whether the power was on or off, yet could easily be reprogrammed.

First step in that direction was the EPROM or eraseable programmable read only memory; these chips lost their memories when exposed to ultraviolet light, ready for another programming cycle.

The EEROM is similar to the EPROM but erasing and reprogramming is carried out electrically with the chip in position in tha circuit.

Why is it not already the answer to the microsystem builders' prayer? Cost chiefly, and speed of programming. The cost of a single stored bit in ROM is 3.6 millicents (thousands of a dollar); in EEROM it is 60 millicents.

According to Robertson Colman & Stephens, a San Francisco investment banker which maintains a market in Seeq stock: "Tha cell size (a significant factor in ultimate product cost) of an EEROM may never be as small as a ROM or EPROM device, but we believe that the more competitive costs and increased functionality offered by EEROMs will result in the EEROM market growing to $1bn in 1988."

Technologically, Seeq and its competitors create EEROM's by "floating" the semiconductor elements or "gates" which hold information in a sea of insulating material. Electrons tunnel through special thin areas to reach the gata elements to set the memory and tunnel out again when it is erased.

After a number of cycles of programming and erasure, tha physical structure of the device begins to break down and it stops working.

Seeq improved the performance of its devices by backfilling the thin area with oxynitride.

But not enough for companies like Pitney Bowes, the office automation manufacturer, which was interested in putting EEROMS into its postage meters to record the amounts spent in postage.

So Seeq came up with a technique called Q cell which it claims gives at least 1m cycles of programming and erasure before the chip fails.

According to Mr Gordon Campbell, president and chief executive officer of Seeq, Q Cell produces fault tolerant chips.

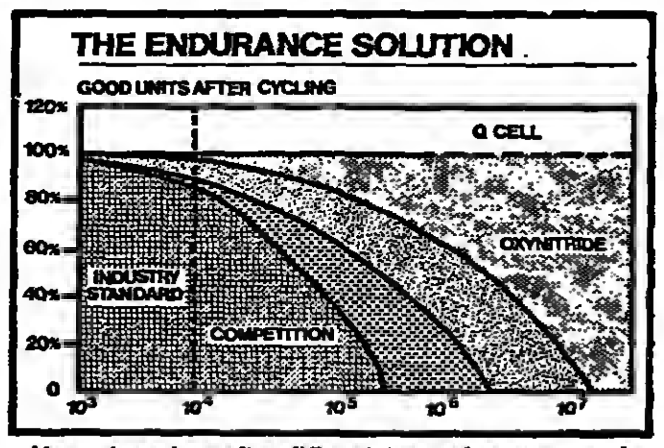
In other words, Seeq can do nothing to prevent physical breakdown of the tunnelling area but it persuades electrons to tunnel through another part of the insulator to reach the gate or, in the worst case, switch to a whole new cell.

While accepting Seeq's claims its competitors query the value of chips that can be programed 1m times, arguing thair own products will operate well beyond the industry standard 10,000 cycles.

SEMICONDUCTOR MEMORY COMPARISON

DEVICE Type	Programmability Where/How	Speed	How Often	* Access Speed (ns)**	Cost/Bit (mls)*** Present	1988	Market Size (bn.) 1983	1988
ROM	Factory	5-15 wks	once	200	$3.6	$0.4	$0.6	$1.7
PROM (bipolar)	In-field	minutes	ence	30	45.0	7.0	0.4	0.7
EPROM	in-field	minutes	10-100	250	7.8	0.7	0.7	2.1
EPROM	In socket electrically	milli-seconds	thousands	250	60.0	2.0	0.08	1.0
NOVRAM	In socket electrically	80 ns	unlimited	80	300.0	9.0	0.015	9.09
Static RAM	In socket electrically	40 ns	unlimited	40	28.0	4.2	0.6	2.3
Dynamic RAM	In socket electrically	150 ns	unlimited	150	6.0	1.0	1.8	8.2

*The number of times a device can be programmed is called endurance. Devices that can be programmed only once cannot be reprogrammed.
**Nanosecond (one billionth of a second) ***Thousandths of a dollar.



Above shows how often different types of memory can be reprogrammed

MANCHESTER UNIVERSITY'S INDUSTRY LINKS

From theory to practice

BY PETER MARSH

A NOVEL venture in Manchester is producing its first results in transferring to the rough and tumble of industry technologies from the academic world.

Vuman, a subsidiary of Manchester University, sells a range of products devised by the university's employees. The products include robots, lasers, liquid crystals and computer software.

Vuman also owns another company that sells to the pharmaceutical industry services in evaluating medicines.

The university set up Vuman just over two years ago. It plans to invest in the company up to £500,000, of which some £200,000 has so far been accounted for.

Vuman's employees — they now number 27 and should be up to 36 in October—aim to tap ideas from the university that have a chance of turning into commercial products.

The staff can fund development work, for example to refine a gadget produced by a university laboratory to the point where it can be sold to industry. Still more crucially, Vuman arranges marketing outlets through which products can be sold.

The academic responsible for the original idea may take up a temporary post with Vuman to push through his brainwave to a commercial stage.

"Some people become academics precisely because they don't want to get involved with the commercial world," explains Dr David Jackson, manager of Vuman's computer division. "We're not trying to convert these people.

"The academics we are trying to help are those, particularly in disciplines like engineering, who over the years hava become frustrated at the difficulties of getting their ideas into industry.

"A lot of useful research in universities never sees the light of day because of lack of support for the academic and the absence of development finance."

The people whom Vuman is trying to help include Dr Larry Gifford, of the university's pharmacy department. Dr Gifford, who is to be seconded to Vuman for four days a week, devised with the aid of colleagues a small robot for use in chemical analysis.

The machine transfers an object such as a test tube to hardware that examines its contents. Both the robot, which Vuman plans to sell for £12,000, and the equipment used in the analysis are controlled by a small computer, for example, an IBM or Sirius machine.

Vuman thinks the robot will be especially useful in the examination of hazardous chemicals. It could also take some of the drudgery out of the routine analysis of samples.

Two of the robots, made under contract to the university by a small Manchester company called PPSL, are already at work. ICI is evaluating one machine for use in pharmaceutical analysis. The university's own staff are experimenting with the second device in a research project for the Ministry of Agriculture in the examination of milk samples.

In another development supported by Vuman, Dr David Sandoz of the university's electrical engineering department is working on software to control automated factories or process operations.

Dr Saodoz will work part-time for Vuman as a consultant. He has already devised control equipment used in industrial plant operated by Shell and ICI.

Among Vuman's other products are iodine lasers, developed by Dr Terry King that can catalyse chemical reactions (see below). The company is also trying to commercialise liquid crystals invented by Dr Harry Coles, another member of the university's physics department. The crystals could have application in large displays either in advertising or in compnter equipment.

Vuman also has a stake in two other companies. Medeval, totally owned by Vuman, tests medicines for drug companies to see how they affect the human body. Medeval is based in the university's pharmacy department although it owns its own equipment. The company's chief executive is Professor Malcolm Rowland, a university pharmacist.

The second company in which Vuman has a stake is Visual Machines, which develops hardware for "second generation" robots that have a rudimentary sense of sight. Other shareholders in the company, of which Vuman owns 35 per cent, are Rediffusion and American Robot Corporation.

Three-quarters of Vuman's annual turnover of £1m accrues from sales by the company's computer division. This acts as an agent for sales of Sirius and Apricot microcomputers made by the Birmingham company ACT. The division—which in August will become a separate company, Vuman Computer Systems—also sells Vuwriter word processor software.

In a new development, tha computer division has produced software that helps chemist's shops to keep control of stock. Mr Philip Young, a pharmacist in Northwich, Cheshire, is testing the first system.

Sales of ACT's computers give Vuman a steady income which it can plough into the development of ideas from the university.

Space

Israel joins satellite programme

ISRAEL is to join a programme co-ordinated by the U.S. to study with satellite techniques the origin of earthquakes in the Mediterranean.

The Israeli Space Agency will build a ground station in Israel that will send laser signals to satellites owned by the U.S. and France. The space vehicles, called LAGEOS and Starlette, have special reflectors that send the light pulses back to earth.

Each satellite is tracked by a number of ground stations in different countries. By recording the time the signals take to reach different stations, engineers can work out the distance between them and hence monitor the movement of the earth's crustal plates that produce earthquakes.

Israel is joining 11 other countries that already participate in a programme managed by the U.S. National Aeronautics and Space Administration. Other nations involved include Britain, France, West Germany, the Netherlands, Sweden, Switzerland and Italy.

Novel lasers for hospital operations

DOCTORS may soon turn to a new kind of laser that has applications in surgery. An iodine laser, developed at Manchester University's physics department, offers an alternative to the carbon-dioxide and neodynium-YAG devices that are becoming common in operating theatres.

Tha £14,400 laser produces a wavelength of 1.3 micrometres. Light at this part of the spectrum is absorbed by water. Consequently, with the device surgeons can vapourise the water which forms a large percentage of human tissue, so making cuts in the body.

According to Dr Terry King, a physicist at the university, light from the iodine laser penetrates more deeply than beams from carbon dioxide devices and slightly less than the radiation from neodynium-YAG machines. So tha device promises to complement the other lasers.

Further, beams from iodine lasers can be "piped" by endoscopes to sites inside the body for example, the stomach. A disadvantage of the carbon-dioxide laser is that light from this source is absorbed by the glass in fibres, so "piped" applications are not normally possible.

The university has applied to tha Department of Health and Social Security for £40,000 to develop the laser further for medical applications, for example, to provide control equipment to make it simple to use.

Vuman, a company set up by Manchester University to exploit academic inventions, has so far sold four of the lasers. They are based on a substance called perfluoroalkyl iodide.

In other applications for the laser, engineers could test optical fibres or channel energy to the plasma in nuclear-fusion reactions.

Wimpey wins £6m work at home and overseas

GEORGE WIMPEY companies have won contracts totalling over £6m. A £990,000 contract has been awarded by Tractor Shovels (Contracts) to the Scottish division of Wimpey Asphalt to surface carriageway between Halbeath and Cowdenbeath in Fife Region. Work will take place between August 1984 and August 1985.

The Greater London Council has placed a £1.9m contract with Wimpey Construction UK for 64 homes and thair associated infrastructure in Litlington Street, Southwark. Work will star this month and completion is set for October 1985.

Ahamad Industrial Complex, Trinidad, has placed a £748,000 contract for Phase One of a warehouse and retain facility complex at Chaguanas with George Wimpey (Caribbean). To give a 5,000 sq metre floor area the building will have a structural steel frame. Work has started and will last for eight months.

Refurbishment of 126 flats in 10 blocks in Juvenal Street, Liverpool, is the subject of a £1.7m contract placed by Liverpool City Council with Wimpey Construction UK. Work has started and will be completed in May 1985.

Two homes refurbishing contracts have been awarded to Wimpey Construction UK valued at £1.1m in total. The Scottish Special Housing Association has placed a £720,000 contract for incremental modernisation of 139 BISF houses in Bellsmyre, Dumbarton. Work, which starts this month and runs to September 1985, will include removal of asbestos, installation of central heating and extensive modernisation of interiors. Under the second contract, placed by Milnbank Housing Association and valued at £456,000, Wimpey will upgrade four four-storey blocks in Alexandra Park Street, Denistown, Glasgow. Work has started for completion in February 1985.

*

Contracts worth over £2m have been awarded to DOVE BROTHERS, Islington. The largest of these are three jobs for the GLC for the refurbishment of housing blocks in North London.

BUILDING CONTRACTS

£10m Spanish complex to be built by Laing

LAING SA fully-owned Spanish subsidiary of John Laing, has been awarded a building contract worth Pta 2,150m (£10m) for construction of 251 luxury apartments and associated commercial premises and car parking facilities in the Puerto Banus complex in Marbella, Costa del Sol, Spain, for Kirwan Espanola, a development company representing both Spanish and international financing interests.

Taylor Woodrow busy in North America

TAYLOR WOODROW CONSTRUCTION CORP, of New York, has been awarded two contracts for building projects in the U.S. and Canada. The corporation is general contractor on a U.S.$5.5m (£3.9m) contract for Taylor Woodrow Property of America to build an office development in Tampa, Florida. Work has started for completion in July, 1985. The 165,000 sq ft air conditioned building, to be called Centrepointe, is to be built on the approach road to Tampa International Airport. Taylor Woodrow Construction Corp has also been appointed construction manager by Monarch Construction, another subsidiary of the Taylor Woodrow Group, nn a Cn$12m (£6.7m) project to build an office block with basement parking in Toronto, Ontario. Work has started for completion in March, 1985.

£6m LT garage at Streatham

MOWLEM MANAGEMENT, management contracting arm of the Mowlem group, has been appointed initially to provide design development assistance to the London Transport Executive for the reconstruction of Streatham bus garage. Construction of the £6m project is due to begin on site in January 1985 and is scheduled for completion by December 1 1986. Work will include demolition of the existing garage, followed by erection of the main garage, on an enlarged site, and a four-storey operating block.

*

Contracts together worth over £3m have been won by A. MONK & CO. They include construction of 1,100 metres of single carriageway, a bus link and footbridge in Huyton, Liverpool, for Merseyside County Council; 2.2 km of singla carriageway road in Coalville, for Leicestershire County Council; and a single span Skew bridge in Bishop Auckland for British Rail board in York.

*

NORWEST HOLST CIVIL ENGINEERING has been awarded a £1.5m contract by Merseyside County Council for construction of 1,350 metres of road at Wavertree Technology Park, Liverpool. The project is to provida roads and services for the new 65-acre Technology Park being developed on the site of the derelict Edge Hill railway sidings at Wavertree, Liverpool, by a consortium of English Estates, Merseyside County Council, Liverpool City Council and Plessey Security Systems. Completion is due early 1986. Norwest Holst has been awarded e contract worth £1.2m by the North West Water Authority to build an effluent treatment works at Grange over Sands, Cumbria. The works include inlet and return sludge screw pumping stations, elevated screens and grit tank, oxidation ditch, final and sludge storage tanks. All work is of reinforced concrete on piled foundations.

*

SULZER BROS (UK), Farnborough, has won a £1.4m contract for mechanical engineering services at Broadmoor Hospital in Berkshire. Tha contract was awarded by Higgs & Hill as part of the first stage of a 12-year programme for redevalopmeot of the hospital by tha Property Services Agency on behalf of the Department of Health and Social Security. Work mainly involves installation of heating and air conditioning to five new buildings, equipment for e kitchen and stores block, plus medical gas services and external works. Work commences in October for completion in 18 months.

*

FAIRCLOUGH BUILDING'S Leeds-based eastern divisioo has won a £500,000 contract for an office block at Concord East in Washington, to ba known as Varmont House. The davelopment is single-storey around a central open courtyard, except for a small two-storey element marking the entrance. Accommodation is provided in open-plan offices, which can be subdivided to form self-contained suites of varying sizes. The work is to be undertaken by tha division's regional office in Sedgefield. Construction was started for completion in November. Tha client is Washington Development Corporation.

*

STREETERS OF GODALMING (a member of the Costain Group) is working on the site of the old Wandsworth gasworks on a £735,000 contract for sewers and earthworks for reclamation of the site which is to be developed for both recreational and industrial purposes. Some 8,000 cu metres of material contaminated with substances including phenols, lead, cyanides and coal tar derivatives has to be moved. About 1,300 metres of pipeline is being constructed for both foul and surface water in diameters ranging from 150 mm to 700 mm, to a depth of 4.5 metres.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—

[illegible]

BOARD MEETINGS—

[illegible]

DIVIDEND & INTEREST PAYMENTS—

[illegible]

TOMORROW

COMPANY MEETINGS—

[illegible]

WEDNESDAY, JUNE 6

COMPANY MEETINGS—

[illegible]

THURSDAY, JUNE 7

COMPANY MEETINGS—

[illegible]

FRIDAY, JUNE 8

COMPANY MEETINGS—

[illegible]

RMC, Carlton Tower Hotel, Cadogan Place, S.W., 11.30

Rugby Portland Cement, Crown House, Rugby, 12.30

Taylor Woodrow, World Trade Centre, 1, St Katherine's Way, E, 11.30

BOARD MEETINGS—

Finals:

Sonic

Sound Diffusion

Interims:

Fison & Robbins

Tomkinsons

DIVIDEND & INTEREST PAYMENTS—

AMF 12.5cts

Allied Irish Bank Fltg Rate Nts 1995 $524.22

Anchor Chemical 2.25p

Anglo American Inv Tst 244.15966p

Barnes 20cts

Boeing 35cts

Border & Southern Stockholders 1.3p

Brammer 4.2p

Clondalkin 6.5p

Cussins Property 3.3p

Gulf Oil 75cts

Imperial Chemical Inds 8pcLn 1991-96 5½pc

Londs 1p

New Central Witwatersrand Areas 16.64697p

Oilfield Inspection Services 1.55p

Purolator 31cts

Reed Intnl 5pcPf 1.75p

Do 7pcPf 2.45p

Do 5½pcRedLn 2¾pc

Do 7½pcRedLn 3¾pc

Richards 0.5p

Safeguard Ind Invs 2.5p

Sun Co 57.5cts

Texaco 75cts

Toye 2.25p

Turriff 7p

Utd Parcels 2p

WW 6p

Warner-Lambert 37cts

Yorkshire Chemicals 1.25p

SATURDAY, JUNE 9

COMPANY MEETING—

Nordin & Peacock, Richmond Hill Hotel, Richmond Hill, Richmond, Surrey, 11.30

DIVIDEND & INTEREST PAYMENTS—

General Motors 125cts

Do Bdrs 0.0625cts

Intnl Bus Mach 95cts

SUNDAY, JUNE 10

DIVIDEND & INTEREST PAYMENT—

Anglo A[illegible]n Inv Tst 440cts

APPOINTMENTS

NatWest factoring group

Mr Michael Maberly has been appointed managing director of CREDIT FACTORING INTERNATIONAL, the wholly owned factoring subsidiary of the National Westminster Bank group, from June 1. He succeeds Mr Roger A. Pilcher, who will become chief executive of e oew initiative in the field of export finance to be launched shortly under the auspices nf the British Export Fioance Advisory Council. Mr Maberly was previously deputy managing director of the company with special responsibilities for marketiog. Mr Vincent Saunders, who has joined the boards of Credit Factoring Internatiooal, Credit Factoring and CF Financial Services, is currently manager, UK operations, within the group.

*

Mr D. J. Gillespie, Mr S. I. Millman, Mr D. R. Porter, Mr R. J. Sinclair, Mr A. W. Sobczak and Mr J. N. Summerscale join the partnership of DE ZOETE & BEVAN, stockbrokers, from June 4.

*

Dr D. H. C. Taylor has been mode managing director of RICARDO CONSULTING ENGINEERS, in place of Mr D. Downs, who remains chairman. Mr G. H. Harker has been appointed finance director but will continue as secretary to the company. Mr M. T. Overington has joined the board. Mr C. C. J. French has succeeded Mr D. Downs as chairman of the subsidiary, G. Cussons.

*

Mr Gerald R. Annesley has been appointed director aod general manager of MITCHELL COTTS MOTOR VEHICLES, who hold the Mercedes-Benz franchises for cars and commercials in the Birmingham and Warwickshire areas. Mr Annesley has been 16 years with Mitchell Cotts, during which time ha has controlled various divisions of the company.

*

Mr A. S. Everitt and Mr B. J. Philbrick have been appointed directors of DEVITT (LIFE AND PENSION BROKERS), part of tha Devitt Group.

*

Mr Peter J. Downey, formerly of the Mercaotile and Gaoeral Reinsurance Company, has beeo appointed general manager of tha COLOGNE RE OF LONDON.

*

Mr C. W. Gumbley has become managing director of ASTRA PYROTECHNICS. Mr A. Reed has resigned as managing director and as a director of the company and its associated companies but remains a consultant. Mr T. Morgan, Mr J. Green and Mr J. Whiting have been appointed directors.

*

OCEAN MARINE MUTUAL PROTECTION AND INDEMNITY ASSOCIATION has appointed Mr L. A. Watts as chairman. He was insurance manager with Chandris (England).

*

Mr John Lavelle has been appointed executive director of THE INSTITUTE OF PUBLIC RELATIONS. He replaces Mr Jimmy Wild who has retired. Mr Lavelle was previously sales and marketing director with Anglian Tendabeef.

*

Mr David Bradford has been appointed to the board of MAYNARDS. He joined in January 1983 as chief executive, manufacturing division, having previously been with United Biscuits and Bassett Foods. He will continue to take responsibility for the manufacturing division.

The week's business in parliament

TODAY

Commons: Remaining stages of the Co-operative Development Agency and Industrial Development Bill.

Lords: Police and Criminal Evidence Bill, second reading.

TOMORROW

Commons: Remaining stages of the Data Protection Bill, aod of the Inshore Fishing (Scotland) Bill.

Lords: Road Traffic Regulation Bill, third reading. Betting, Gaming and Lotteries (Amendment) (No 2) Bill, committee. Urban Parishes Bill, report. Dangerous Vessels Bill, report. Rates Bill, report. Cycle Tracks Bill, committee.

Select Committees: Defence. Security of military installations. Witnesses: Property Services Agency, Defence Police Federatinn (Room 16, 10.30). Transport. Financing of airports. Witnesses: Heathrow Scheduling Committee (room 17, 4.15). Defence. Security of military installations. Witnesses: John Stanley, Minister for the Armed Forces, Geoffrey Pattie, Minister for Defence Procurement (room 16, 4.30).

WEDNESDAY

Commons: Remaining stages of the Agricultural Holdings Bill. Motion relating to the Control of Harbour Development (Revocation) Order.

Lords: Debata on the Report nf the European Communities Committee on the successor to the Second Lome Convention (15th Report, 1983-84). Video Recordings Bill, report. Unstarred question on the Government's policy towards Lebanon.

Select committees: Defence. Security of military installations. Witnesses: Inspectorate of Security Guard, Patrol and Transport Services (room 8, 10.30). Scottish housing damp. Witness: George Younger, Scottish Secretary (room 19, 10.30). Trade and Industry. Wealth of waste inquiry. Witnesses: Department of Trade and Industry, Glass Manufacturers Federation (room 16, 10.30). Home Affairs. Compensation for victims of crime. Witnesses: Home Office, Criminal Injuries Compensation Board (room 16, 4.15). Treasury. Acceptance of outside appointments by civil servants. Witnesses: Mr J. Bland, Mr B. Moss, Mr R. Rand (room 6, 4.30).

THURSDAY

Commons: Opposition debate nn o motion on the mining dispute and the Government's failure to stand by the "Plan for Coal."

Lords: Rating and Valuation (Amendment) (Scotland) Bill, third reading. London Regional Transport Bill, report. Somerset House Bill, consideration of Commons amendment. Juries (Disqualification) Bill, committee.

FRIDAY

Commons: Remaining stages of the County Courts Bill; Second reading of the Mental Health (Scotland) Bill and the Food Bill; Proceedings on the Public Health (Control of Disease) Bill, the Registered Homes Bill and the Dentists Bill. Motion on EEC documents on combating air pollution from industrial plant.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

INSURANCES

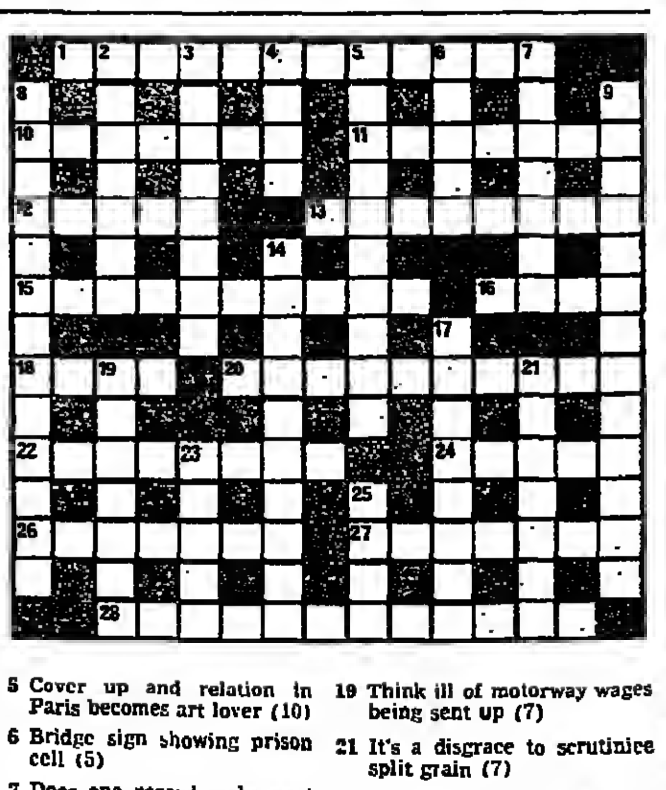
Insurances—continued

Offshore & Overseas—continued

Money Market Trust Funds

Money Market Bank Accounts

F.T. CROSSWORD PUZZLE No. 5,432



ACROSS

1 Swain's religious—has eastern dish (9, 3)

10 Train perhaps, uninterrupted (3-4)

11 It may be support for half of 22 (7)

12 American time for practice (5)

13 Leading performer almost worth a flower (8)

15 Lanced with iron? Could cause secreting internally (10)

16 Favourites make come-back in first 7 (4)

18 Initially, some are matching—even identical (4)

20 Torments last in seat arrangement (10)

22 Two girls prepare herb (8)

24 Ruminant—some took a picture of it (5)

26 Regiment returned issue to American poet (7)

27 Seeing Auster, there's no going back in Wiltshire (7)

28 E.g. calt in home designed for painter (12)

DOWN

2 Difficult to accept brief reply in parliamentary record (7)

3 Game girl (8)

4 Watch points with party extremes (4)

5 Cover up and relation in Paris becomes art lover (10)

6 Bridge sign showing prison cell (5)

7 Does one record make part of a series? (7)

8 Fashionable—odd way to have financial problems (2, 5, 6)

9 Mean U.S. composer makes Court appearance (5, 6)

14 Oddly said right room to throw into disorder (10)

17 Conceding everyone is in debt (8)

19 Think ill of motorway wages being sent up (7)

21 It's a disgrace to scrutinice split grain (7)

23 Euterpe say, endlessly in charge of entertainment (5)

25 There is too much—and she is too old (Kipling) (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

INSURANCE & OVERSEAS MANAGED FUNDS

Barclays Life Ass. Co.

Income Accum	128.6		-0.3	
Do. Initial	122.3	128.[illegible]		—
Universal Tec. Acc	82.5	86.9	-0.[illegible]	
Do. Initial	81.1	85.4	+0.2	—
Man. Pens. Accum.	259.6	273.3		—
Do. Initial	209.9	221.0		—
Gilt Edg. Pens. Accum.	213.8	225.1		—
Do. Initial	166.2	175.0		—
Money Pens. Accum.	197.7	208.2		—
Do. Initial	155.9	164.2		—

Black Horse Life Ass. Co. Ltd.
346A High St., Chatham 0634 405161

Black Horse Man. Fd.		262.11		—
Managed Inv. Fd.	175.37	184.60		—
Property Fd.	154.90	163.06		—
Fixed Interest Fd.	149.66	157.54		—
Cash Fd.	139.28	146.59		—
Income Fd.	202.57	213.24		—
Extra Income Fd.	197.87	208.29		—
Worldwide Growth Fd.	230.86	243.02		—
Balanced Fd.	204.85	215.63		—
Smlr Co's & Recv. Fd	231.01	243.17		—
Int. Technology Fd.	257.53	271.09		—
Nth. Amer. & Gen. Fd.	150.97	158.92		—
Energy Int. Fd.	113.95	119.93		—
Pacific Basin Fund	164.31	172.96		—

British National Life Assurance Co. Ltd.
Harlands Rd, Haywards Heath. 0444 414111

Managed	117.9	124.1	-2.1	—
Property	120.9	127.3	-2.8	—
Equity	123.7	130.2	-5.6	—
International	131.1	138.0	-3.3	—
Fixed Interest	105.5	111.1	+0.6	—
Deposit	102.8	108.2		—
Managed Pen. Cap.	116.1	122.2	-2.9	—
Property Pens. Cap.	119.8	126.1	-3.9	—
Equity Pens. Cap.	116.5	122.6	-6.6	—
Intnl. Pens. Cap.	133.1	140.1	-4.7	—

G.T. Management Ltd.
16, Finsbury Circus, Lond EC2M 7DJ. 01-628 8131

GT Plan Bond Fund	125.4	132.0	-0.5	—
GT Plan High Yld Fnd.	126.3	133.0	-2.0	—
GT Plan Far East Fnd	120.3	126.7	-3.3	—
GT Pen. N. Am Fd.	112.1	115.1	-1.1	—
GT Pln UK&G.E. Fnd	145.0	[illegible]	-3.2	—
GT Pln Wrldwde Fnd.	142.5	150.1	-1.2	—
GT Pension Bnd Fnd.	136.8	144.1	-0.6	—
GT Pen High Yld Fd.	145.7	153.4	-2.5	—
GT Pen Far East Fd.	149.2	157.1	-4.5	—
GT Pen N. Am. Fd.	165.7	174.5	-1.4	—
Pen UK and General	169.2	178.2	-3.9	—
GT Pen Worldwide Fd.	152.8	160.9	-1.4	—

Prices for Accum. Units only.

Assicurazioni GENERALI S.p.A.
117, Fenchurch St., EC3M 5DY. 01-488 0733

Int. Managed Bond	172.3	181.4	-2.4	—

General Portfolio Life Ins. PLC
Crossbrook St., Cheshunt, Herts. Waltham X 31971

Portfolio Fd. Acc.		260.2	-6.4	—
Portfolio Fd. Ini.		209.2	-5.3	—

Continued on adjacent Page

Gresham Unit Ass. Ltd.
2-6, Prince of Wales Rd. B'mouth. 0202 767655

Managed Fd.	277.0	291.9		—
Money Fd.	159.0	168.2		—
Equity Fd.	231.7	244.2		—
Fixed Int. Fd.	116.0	122.2		—
Property Fd.	178.2	187.8		—
Managed Pen. Fd.	273.2	287.9		—
Equity Pension Fd.	173.9	183.3		—
Fixed Int. Pen. Fd.	165.0	173.9		—
High Yield Pen. Fd.	163.3	172.1		—
Money Pension Fd.	134.2	141.9		—
Property Pension Fd.	132.9	140.0		—

Gresham/Framlington

American & Gen. Fd.	217.8	229.5	-0.7	—

OFFSHORE AND OVERSEAS

Westavon Secs (Guernsey) Ltd
Borough Hse, St Peter Port, Guernsey. 0481 27969

Gilt & Option Fd.	£1.15	1.20	—	3.00
US $ Option	$0.86	0.91	—	—

World Wide Growth Management¶
10a, Boulevard Royal, Luxembourg

Worldwide Gth Fd	$11.45	—	-0.11	—

Inv. Adv.: M. & G. Inv. Mngt., Ltd., London.

Wren Commodity Management Ltd.
10, St. George's St., Douglas IoM 0624 25015

Wren Com. Fund	16.7	17.4		—
Chinese Fund	60.1	62.6		—
Precious Metal Fund.	137.8	143.3		—
Vanguard Cmdy. Fd.	29.8	29.8		—
Financial Futures Fd.	55.3	57.5		—

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. ø Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. § Yield column shows annualised rate of NAV increase.

FT LONDON SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
26Mar	20S	Treas 12pc 1984	108½	14.5	11.94	9.97
22Aug	22F	Treas. 15pc 1985	103	16.1	14.55	10.31
22S	22Mar	Exch. 12pc Cnv. '85	101	14.2	11.86	10.31
21N	21My	Treas 3pc 1985	94	16.4	3.19	9.45
15Jan	15Jul	Treas 11½pc 1985	100¾	9.12	11.41	20.74
3Mar	3Se	Treas 8¾pcCnv '85	97½	26.1	8.97	10.86
22May	22N	Exch. 12¼pc 1985	101	16.4	12.06	11.82
25Aug	25Fb	Exch. 11¼pc '86	100¼	19.1	11.66	11.19
11Oct	11Apr	Treas. 10pcCnv 1986	98¼	5.3	10.18	11.04
19N	19May	Treas 3pc 1986	88¾	12.4	3.38	9.43
19Nv	19My	Exch. 10½pc Cv '86	99	12.4	10.60	11.03
12Dec	12Jun	Treas 12pc 1986	101¼xd	8.5	11.85	13.30
10Ja	10Jul	Treas 8½pc 1984-86‡‡	95	5.12	8.95	11.22
29Ap	29Oc	Exch. 14pc 1986	105	23.3	13.32	11.46
21May	21N	Exch. 2½pc 1986	85	16.4	2.94	9.36
22Jul	22Jan	Exch. 13¾pc 1987	105½	16.12	12.80	11.62
10Aug	10Fb	Treas 10¼% Cv '87	96	4.1	10.60	11.68
24Aug	24Feb	Exch 2½pc 1987	83½	18.1	3.01	9.68
6Oct	6Apr	Exch. 10½pc 1987	97	1.3	10.78	11.59
1N	1May	Funding 6½pc '85-87‡‡	88	26.3	7.33	11.18
12Dec	12Jne	Treas. 10pc 1987	95¾xd	8.5	10.43	11.66
14Jan	14Jly	Treas 3pc 1987	81	8.12	3.68	10.04
3May	3Nov	Treas. 12pc 1987	100	27.3	11.93	11.74
26Jul	26Ja	Treas 7¾pc 1985-88‡‡	89	20.12	8.67	11.37
10Nov	10May	Exch 10½pc '88	96	3.4	10.92	11.75
14Dec	14Jne	Treas 9¾pc Cv '88	93xd	8.5	10.42	11.81
1Jan	1Jul	Transport 3pc '78-88	77¼xd	25.5	3.88	9.93
25Ap	25Oc	Treas. 9½pc '88	92	19.3	10.31	11.83
22Aug	22Fb	Treas 11½pc 1989	98	16.1	11.68	11.91
18Oct	—	Treas9½pcCv'89 £50pd	46	—	10.37	11.89

Five to Fifteen Years

Over Fifteen Years

Undated

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Miscellaneous

		For Echo Bay Mines see Canadians				
Sept	Feb	Hampton Areas 10p	217	30.12	3.75	2.1	2.3
—		♥Highwood Res.	170	—	—	—	—
May	Aug	Homestake Mining $1	£21½	16.3	020c	—	0.7
October		Northgate C$1	295	977	—	—	—
Jan.	July	RTZ	609	14.5	18.0	2.5	4.2
Jan	July	Do. 9½pcLn '95-2000	£133½	14.5	Q9½%	35.4	7.4
—		♥Sabina Inds C$1	62	—	—	—	—
—		♥Tara Exptn $1	875	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ◆ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 163(4)(a).
- ✝ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 163(1).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress.
- ◆ Not comparable.
- ◆ Same interim: reduced final and/or reduced earnings indicated.
- ◆ Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1983-84. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1984. K Figures based on prospectus or official estimates for 1984. M dividend and yield based on prospectus or other official estimates for 1983. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

			Fin. 11% 97/02	£92⅞	+¼
Albany Inv 20p	70	+1	Alliance Gas	50	.....
Craig & Rose £1	750	.....	Arnott	220xd	−5
Finlay Pkg. 5p	43	.....	CPI Hldgs	85	.....
Higsons Brew	83	.....	Carrol Inds.	128	.....
Holt (Jos) 25p	880xd	.....	Hall (R. & H.)	68	.....
IoM Stm. £1	132	−1	Helton Hldgs.	21	.....
			Irish Ropes	42	.....
IRISH			Jacob (W.& R.)	66	.....
Exch. 12% 1985	£99	.....	TMG	50	.....
Nat. 9¾% 84/89	£89	+⅛	Unidare	83	.....

OPTIONS — 3-month call rates

Industrials		Hawker Sidd	38	Vickers	14
Allied-Lyons	15	Hse of Fraser	26	Woolworth Hldg	50
BOC Grp	27	ICI	42		
BSR	26	'Imps'	12	**Property**	
Babcock	17	ICL	7½	Brit Land	11
Barclays Bank	45	Ladbroke	23	Cap Counties	16
Beecham	32	Legal & Gen	45	Land Secs	25
Blue Circle	40	Lex Service	40	MEPC	25
Boots	16	Lloyds Bank	50	Peachey	17
Bowaters	25	'Lofs'	3	Samuel Props	12
Brit Aerospace	20	Lucas Inds	18	Sterling Guar.	4
BAT	15	'Mams'	14		
Brown (J.)	3	Marks & Spcr	20	**Oils**	
Burton Ord	22	Midland Bk	36		
Cadburys	11	NEI	10	Brist Oil & Min	9
Comm Union	16	Nat West Bk	60	Brit Petroleum	35
Courtaulds	11	P & O Dfd	25	Burmah Oil	17
Debenhams	14	Plessey	20	Charterhall	9
Distillers	22	Racal Elect	18	Premier	6
Dunlop	5	RHM	0	Shell	55
FNFC	6¼	Rank Org Ord	24	Tricentrol	20
Gen Accident	42	Reed Intnl	40	Ultramar	60
Gen Electric	16	Sears	8		
Glaxo	70	TI	22	**Mines**	
Grand Met	30	Tesco	16		
GUS 'A'	55	Thorn EMI	55	Charter Cons	24
Guardian	50	Trust Houses	18	Cons Gold	58
GKN	20	Turner Newall	10	Lonrho	12
Hanson Tst	17	Unilever	75	Rio T Zinc	60

A selection of Options traded is given on the London Stock Exchange Report page.

"Recent Issues" and "Rights" Page 16

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar begins to slide

BY COLIN MILLHAM

Wall Street looked a rather happier place than of late on Friday as financial markets began to hope that the rise in U.S. interest rates expected until fairly recently would be avoided. How long the lack of confidence in the U.S. banking will last is not clear, but with the Federal Reserve apparently intent on repairing the damage by keeping interest rates down the credit markets suddenly took heart, and the dollar tumbled on the foreign exchanges.

Ascension Day holidays on the Continent and a foreign exchange conference in Belgrade kept the currency markets very quiet for most of the week, but on Friday the market was more active and much more willing to sell the dollar than in recent weeks.

Earlier in the week tension in the Middle East lent the dollar some support, but although the market was not surprised at another record U.S. trade deficit the April figure of $12.19bn proved very disappointing, and discouraged any strong demand for the dollar. News about Bolivia's debt problems was another depressing factor, particularly because it increased concern about U.S. bank exposure to third world debt in general.

Labour unrest in Europe concerning the British miners and German metalworkers offset some of the fears about the dollar, but these tended to slip further into the background as the week progressed.

It may be that the dollar will continue to slide this week, but it would not be the first time that traders prepared to run short positions against the currency have been disappointed. A major restraint on a falling dollar is the lack of a suitable alternative, since almost all other currencies appear to have one problem or another, including the yen because of Japan's dependence on oil from the Gulf.

Sterling was on the sidelines for much of the week, but on Friday rose to its highest level against the dollar for nearly a month. Dealers suggested the underlying position of the pound was quite firm, because of threats to oil supplies as shipping continues to be caught up in the Gulf war, and expectations of higher U.K. interest rates. The fact that tentative talks had started aimed at settling the coal dispute was also regarded favourably.

£ in New York

	June 1	Prev. close
Spot	$1.4030-4045	$1.3905-3875
1 month	0.19-0.21 dis	0.25-0.27 dis
3 months	0.06-0.61 dis	0.65-0.68 dis
12 months	3.23-3.28 dis	3.33-3.38 dis

£ forward rates are quoted in U.S. cents discount.

FORWARD RATES AGAINST STERLING

	Spot	1 month	3 month	6 month	12 month
Dollar	1.4035	1.4065	1.4096	1.4166	1.4352
D-Mark	3.77	3.7538	3.7331	3.6960	3.6309
French Franc	11.586	11.6263	11.695	11.8421	12.0928
Swiss Franc	3.1325	3.1188	3.0869	3.0380	2.9513
Japanese Yen	323.25	322.43	320.33	317.27	311.03

THE POUND SPOT AND FORWARD

June 1	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.3875-1.4050	1.4030-1.4040	0.17-0.22c dis	−1.67	0.58-0.63dis	−1.72
Canada	1.7975-1.8150	1.8130-1.8140	0.24-0.30c dis	−1.79	0.74-0.82dis	−1.72
Nethlnd	4.23½-4.25¾	4.24-4.25	1⅞-1c pm	2.36	4⅛-3⅞pm	3.83
Belgium	76.50-77.00	76.60-77.00	16-22c dis	−2.88	36-45dis	−2.08
Denmark	13.82¾-13.85½	13.85¼-13.86¼	⅜-1½ore dis	−0.92	2¾-3⅞dis	−0.90
Ireland	1.2275-1.2330	1.2275-1.2295	0.20-0.28p dis	−2.34	0.63-0.78dis	−2.28
W. Ger	3.76¼-3.78	3.78¼-3.77½	1¾-⅞pf pm	2.38	3⅞-3½pm	3.91
Portugal	193½-196½	195¼-195¾	85-230c dis	−9.68	350-740dis	−11.16
Spain	212.05-213.85	213.65-213.85	95-125c dis	−6.17	310-345dis	−0.13
Italy	2327-2335	2332-2334	10-13lire dis	−5.91	31-34dis	−0.57
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.83

Belgian rate is for convertible francs. Financial franc 78.25-78.35. Six-month forward dollar 1.26-1.33c dis. 12-month 3.12-3.22c dis.

BANK OF ENGLAND TREASURY BILL TENDER

	June 1	May 25		June 1	May 25
Bills on offer	£100m	£100m	Top Accepted rate of discount	8.9245%	8.9846%
Total of applications	£418.48m	£221.485m	Average rate of discount	8.8346%	8.9603%
Total allocated	£100m	£100m	Average yield	9.14%	9.19%
Minimum accepted bid	£97.775	£97.76	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	100	07%			

THE DOLLAR SPOT AND FORWARD

June 1	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.3875-1.4050	1.4030-1.4040	0.17-0.22c dis	[illegible]	[illegible]	[illegible]
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nethlnd	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Ger	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 85.75-85.85.

OTHER CURRENCIES

June 1	£	$		£ Note Rates
Argentina Peso	[illegible]	[illegible]	Austria	[illegible]
Australia Dollar	[illegible]	[illegible]	Belgium	[illegible]
Brazil Cruzeiro	[illegible]	[illegible]	Denmark	[illegible]
Finland Marka	[illegible]	[illegible]	France	[illegible]
Greek Drachma	[illegible]	[illegible]	Germany	[illegible]
Hong Kong Dollar	[illegible]	[illegible]	Italy	[illegible]
Iran Rial	[illegible]	[illegible]	Japan	[illegible]
Kuwait Dinar(KD)	[illegible]	[illegible]	Netherlands	[illegible]
Luxembourg Fr	[illegible]	[illegible]	Norway	[illegible]
Malaysia Dollar	[illegible]	[illegible]	Portugal	[illegible]
New Zealand Dlr	[illegible]	[illegible]	Spain	[illegible]
Saudi Arab. Riyal	[illegible]	[illegible]	Sweden	[illegible]
Singapore Dollar	[illegible]	[illegible]	Switzerland	[illegible]
Sth African Rand	[illegible]	[illegible]	United States	[illegible]
U.A.E. Dirham	[illegible]	[illegible]	Yugoslavia	[illegible]

* Selling rates.

EMS EUROPEAN CURRENCY UNIT RATES

	ECU central rates	Currency amounts against ECU June 1	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.9008	[illegible]	[illegible]	[illegible]	±1.5447
Danish Krone	8.14104	[illegible]	[illegible]	[illegible]	±1.6425
German D-Mark	2.24184	[illegible]	[illegible]	[illegible]	±1.0642
French Franc	6.87456	[illegible]	[illegible]	[illegible]	±1.4052
Dutch Guilder	2.52595	[illegible]	[illegible]	[illegible]	±1.4964
Irish Punt	0.72569	[illegible]	[illegible]	[illegible]	±1.6699
Italian Lira	1403.49	[illegible]	[illegible]	[illegible]	±4.1505

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

CURRENCY MOVEMENTS

June 1	Bank of England Index	Morgan Guaranty Changes %
Sterling	78.5	−11.0
U.S. dollar	130.0	+18.4
Canadian dollar	88.4	−3.3
Austrian schilling	116.0	+0.5
Belgian franc	90.4	−11.1
Danish Kroner	78.3	−6.0
Deutsche mark	126.4	+8.7
Swiss franc	146.9	+11.0
Guilder	116.4	+4.9
French franc	66.8	−14.8
Lira	48.4	−13.1
Yen	157.9	+14.1

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

CURRENCY RATES

June 1	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.751009	0.593310
U.S. $	9	1.04517	0.828557
Canadian $	11.54	[illegible]	1.07167
Austria Sch	4¼	18.9063	15.5646
Belgian Fr	11	n/a	45.8804
Danish Kr	7	10.4177	8.21390
D'mark	4	2.89014	2.23296
Guilder	5	3.18924	2.51798
French Fr	9½	8.86156	6.86480
Lira	16½	[illegible]	1383.28
Yen	5	241.898	190.779
Norwgn Kr	8	8.09464	6.39818
Spanish Pta	—	159.469	126.314
Swedish Kr	8½	8.41456	6.64480
Swiss Fr	4	2.34433	1.85650
Greek Dr'ch	20½	116.398	88.2757

*CS/SDR rate for May 31 1.34820.

EXCHANGE CROSS RATES

June 1	Pound St'rling	U.S. Dollar	Deutsche m'k	J'panese Yen	French Franc	Swiss Franc	Dutch Guild	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	1.404	3.770	322.3	11.590	3.133	4.245	2333.	1.814	76.95
U.S. Dollar	0.713	1.	2.685	230.1	8.253	2.230	3.023	1661.	1.292	54.77
Deutschemark	0.265	0.372	1.	85.74	3.076	0.831	1.126	618.8	0.481	20.41
Japanese Yen 1,000	3.094	4.342	11.66	1000.	35.87	9.691	13.13	7217.	5.610	238.1
French Franc 10	0.862	1.210	3.251	278.8	10.	2.702	3.661	2012.	1.564	66.36
Swiss Franc	0.319	0.448	1.204	103.2	3.702	1.	1.356	744.8	0.579	24.57
Dutch Guilder	0.236	0.331	0.888	76.16	2.731	0.738	1.	549.6	0.427	18.13
Italian Lira 1,000	0.429	0.602	1.616	138.6	4.970	1.343	1.820	1000.	0.777	32.98
Canadian Dollar	0.551	0.774	2.079	178.2	6.394	1.727	2.341	1286.	1.	42.43
Belgian Franc 100	1.300	1.824	4.899	420.1	15.07	4.071	5.517	3032.	2.357	100.

EURO-CURRENCY INTEREST RATES (Market closing rates)

June 1	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	D-mark	French Franc	Italian Lira	Belgian Franc Conv.	Belgian Franc Fin.	Yen	Danish Kroner
Short term	7¾-8	10¼-10⅜	10-10⅛	5¾-6⅞	1⅞-2	4⅞-5	11¾-12	14-15	11¼-11¾	11¼-11¾	5¾-5⅞	5⅞-6⅜
7 days' notice	8½-8¾	10½-10¾	10⅜-10⅝	5⅞-6⅛	2⅜-2⅞	5⅜-5⅝	11⅞-12⅛	14⅜-15⅜	11⅛-12	11⅜-11⅞	5⅞-6	8⅛-8⅝
Month	9¼-9⅜	10⅞-11⅛	10½-10⅞	6⅛-6⅜	3⅛-4⅛	5⅛-5¼	12⅛-12⅜	14⅝-16⅛	11¾-12¼	11⅝-11⅞	6⅜-6⅛	9⅝-10⅞
Three months	9⅞-10	11⅞-11⅞	11⅛-11⅞	6⅛-6¼	4⅛-4⅞	6⅛-6⅜	12⅝-13⅜	16⅛-15⅜	11¾-12¼	11⅞-12⅛	6⅜-6⅞	10⅝-10⅞
Six months	10⅛-10⅞	12⅜-12⅝	12⅛-12⅜	6⅛-6⅜	4⅜-4⅛	6⅛-6⅞	14⅜-14⅜	16-16⅛	12¼-12¾	12-12¾	6⅜-6⅛	10⅛-11
One year	10⅛-10⅛	13⅛-13⅛	13¼-13⅞	6⅛-7⅛	4⅜-4¾	6⅛-6⅛	15¼-15⅛	17⅛-18	13-10⅛	12-12¼	6⅛-6⅛	11¼-11¾

Asian $ (closing rates in Singapore): Short-term 10⅝-10¾ per cent; seven days 10⅝-10⅞ per cent; one month 11-11⅛ per cent; three months 11⅞-11⅞ per cent; six months 12⅞-12⅞ per cent; one year 13½-13⅝ per cent. Long-term Eurodollars: two years 14-14⅛ per cent; three years 14⅛-14⅜ per cent; four years 14⅛-14½ per cent; five years 14⅜-14⅝ per cent nominal closing rates. Short-term rates are calls for U.S. banks and Japanese yen; two days' notice.

FINANCIAL FUTURES

LONDON

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]

Volume [illegible]. Previous day's open int. [illegible]

THREE-MONTH STERLING DEPOSIT £250,000 points of 100%

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]

Volume [illegible]. Previous day's open int. [illegible]

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]

Volume [illegible]. Previous day's open int. [illegible]. Basis quote (clean cash price of 13¼% Treasury 2003 less equivalent price of near futures contract) [illegible]

STERLING £25,000 $ per £

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]

Volume [illegible]. Previous day's open int. [illegible]

DEUTSCHE MARKS DM 125,000 $ per DM

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]

Volume [illegible]. Previous day's open int. [illegible]

SWISS FRANCS SwFr 125,000 $ per SwFr

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]

Volume [illegible]. Previous day's open int. [illegible]

JAPANESE YEN Y12.5m $ per Y100

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]

Volume [illegible]. Previous day's open int. [illegible]

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	101.75
Sept	[illegible]	[illegible]	[illegible]	101.10
Dec	[illegible]	[illegible]	[illegible]	102.10

Volume [illegible]. Previous day's open int. 1,383 (1,319)

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	60-06
Sept	[illegible]	[illegible]	[illegible]	59-15
Dec	[illegible]	[illegible]	[illegible]	58-31
Mar	[illegible]	[illegible]	[illegible]	58-18
June	[illegible]	[illegible]	[illegible]	58-18
Sept	[illegible]	[illegible]	[illegible]	58-02
Dec	[illegible]	[illegible]	[illegible]	57-28
March	[illegible]	[illegible]	[illegible]	57-23

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	90.18
Sept	[illegible]	[illegible]	[illegible]	88.76
Dec	[illegible]	[illegible]	[illegible]	87.[illegible]
March	[illegible]	[illegible]	[illegible]	87.48
June	[illegible]	[illegible]	[illegible]	87.25
Sept	[illegible]	[illegible]	[illegible]	87.07
Dec	[illegible]	[illegible]	[illegible]	86.91
March	[illegible]	[illegible]	[illegible]	86.78

CERT. DEPOSIT (IMM) $1m points of 100%

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	88.46
Sept	[illegible]	[illegible]	[illegible]	86.94
Dec	[illegible]	[illegible]	[illegible]	86.17
March	[illegible]	[illegible]	[illegible]	85.75

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	88.03
Sept	[illegible]	[illegible]	[illegible]	86.49
Dec	[illegible]	[illegible]	[illegible]	85.70
March	[illegible]	[illegible]	[illegible]	85.28
June	[illegible]	[illegible]	[illegible]	84.89

STERLING (IMM) $e per £

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	1.3875
Sept	[illegible]	[illegible]	[illegible]	1.3940
Dec	[illegible]	[illegible]	[illegible]	1.4015
March	[illegible]	[illegible]	[illegible]	1.4090

GNMA (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
June	[illegible]	[illegible]	[illegible]	64-01
Sept	[illegible]	[illegible]	[illegible]	62-24
Dec	[illegible]	[illegible]	[illegible]	61-22
March	[illegible]	[illegible]	[illegible]	60-27
June	[illegible]	[illegible]	[illegible]	60-05
Sept	[illegible]	[illegible]	[illegible]	59-20
Dec	[illegible]	[illegible]	[illegible]	59-07

WEEKLY CHANGE IN WORLD INTEREST RATES

	June 1	change		June 1	change
LONDON			NEW YORK		
Base rates	[illegible]	[illegible]	Prime rates	[illegible]	[illegible]
7 day interbank	[illegible]	[illegible]	Federal funds	[illegible]	[illegible]
3 mth interbank	[illegible]	[illegible]	3 mth. Treasury Bills	[illegible]	[illegible]
Treasury Bill Tender	[illegible]	[illegible]	6 mth. Treasury Bills	[illegible]	[illegible]
Band 1 Bills	[illegible]	[illegible]	3 mth. CD	[illegible]	[illegible]
Band 2 Bills	[illegible]	[illegible]	FRANKFURT		
Band 3 Bills	[illegible]	[illegible]	Lombard	[illegible]	[illegible]
3 mth. Treasury Bills	[illegible]	[illegible]	One mth. Interbank	[illegible]	[illegible]
1 mth. Bank Bills	[illegible]	[illegible]	Three month	[illegible]	[illegible]
3 mth. Bank Bills	[illegible]	[illegible]	PARIS		
TOKYO			Intervention Rate	[illegible]	[illegible]
One month Bills	[illegible]	[illegible]	One Mth. Interbank	[illegible]	[illegible]
Three month Bills	[illegible]	[illegible]	Three month	[illegible]	[illegible]
BRUSSELS			MILAN		
One month	[illegible]	[illegible]	One month	[illegible]	[illegible]
Three month	[illegible]	[illegible]	Three month	[illegible]	[illegible]
AMSTERDAM			DUBLIN		
One month	6⅛	+⅛	One month	12⅛	+⅛
Three month	6⅛	+⅛	Three month	12⅛	+⅛

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, and band 3 bills 34 to 63 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week. Band 4 bills 8⅞-8⅞.

MONEY MARKETS

Waiting for the money supply

Interest rates were influenced by several confusing factors last week, with the general trend in the U.S. easier, but in London much firmer. Strong growth in the U.S. economy points towards a probable desire of the Federal Reserve to tighten monetary policy for fear of inflationary pressure, but at present the U.S. authorities appear constrained by fears about the health of the banking system. Confidence was not helped by news of Bolivia's temporary suspension of debt payment to foreign banks. Until the problems of Continental Illinois and possibly other major U.S. banks came to light it was assumed the Federal Reserve would eventually raise its discount rate but last Friday there was speculation in financial markets that the Fed may cut the rate to ease the liquidity problems of the banking system.

As part of the general interest rate picture there is also a strong suspicion that the German Bundesbank would like to increase its domestic interest rates to bring them more into line with those abroad, but is restrained from doing so by events in the U.S. and by the already detrimental effects on industry caused by the metalworkers' dispute.

The British Government and Bank of England are certainly not in favour of another rise in London interest rates, but by last Thursday the upward pressure on money market rates seemed to make an increase in clearing bank base rates inevitable. Money supply figures for mid-May will be published tomorrow, and recent figures have not been encouraging to the markets. In the light of the recent speech by the Chancellor of the Exchequer, suggesting strong growth in coming months, tomorrow's figures are awaited with some concern.

Money market rates now appear to justify base rates of at least 10 per cent, but it is assumed the banks are unlikely to move before the May figures are published. On the other hand sterling is firm against the dollar, U.S. rates may be set to fall, and although interbank rates remained very high on Friday bill rates in the money market fell back significantly. Could it be that the inevitable rise in rates is not going to occur after all. By Friday night there were one or two people beginning to wonder.

MONEY RATES

June 1	Frankfurt	Paris	Zurich	Amst'dam	Tokyo	Milan	Brussels	Dublin
Overnight	0.5-0.0	12	1⅛-2	5¼-5⅞	6.96870	10⅛-10⅞	7.95	11¼-11⅛
One month	0.65-5.80	18⅛-18⅛	3⅛-3⅛	5⅞-6	6.28125	10⅛-18¾	11⅛-11⅞	12-12¼
Two months	0.80-0.00	12⅛-18¼	—	—	—	—	—	12¼-12⅛
Three months	0.10-6.25	13¼-13⅛	4-4⅛	6⅛-6¼	6.28125	16⅛-10⅞	12-12¼	12⅞-12¾
Six months	0.30-6.45	16⅛-13⅛	—	0⅛-6⅛	—	—	12-12¼	12¾-10
Lombard	5.5	—	—	—	—	—	—	—
Intervention	—	11¾	—	0⅞	—	—	—	—

LONDON MONEY RATES

Discount Houses Deposit and Bill Rates

June 1 1984	Sterling Certificate of deposit	Interbank	Local Authority deposits	Company Deposits	Market Deposits	Treasury (Buy)	Treasury (Sell)	Eligible Bank (Buy)	Eligible Bank (Sell)	Fine Trade (Buy)
Overnight	—	[illegible]	[illegible]	[illegible]	[illegible]	—	—	—	—	—
2 days notice	—	—	[illegible]	—	—	—	—	—	—	—
7 days or...	—	—	—	—	—	—	—	—	—	—
7 days notice	—	[illegible]	[illegible]	[illegible]	[illegible]	—	—	—	—	—
One month	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	10
Two months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	10⅛
Three months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	10¼
Six months	[illegible]	[illegible]	[illegible]	—	—	—	—	—	—	—
Nine months	[illegible]	[illegible]	[illegible]	—	—	—	—	—	—	—
One year	[illegible]	[illegible]	[illegible]	—	—	—	—	—	—	—

FT LONDON INTERBANK FIXING

LONDON INTERBANK FIXING (11.00 a.m. June 1)

3 months U.S. dollars

bid 11 5/8	offer 11 3/4

6 months U.S. dollars

bid 12 5/8	offer 12 1/2

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

	Local Auth. negotiable bonds	Local Authority Deposits	Finance House Deposits	$ Cert of Deposits	SDR Linked Deposits	ECU Linked Deposits
One month	[illegible]	[illegible]	—	[illegible]	[illegible]	[illegible]
Two months	[illegible]	[illegible]	—	[illegible]	[illegible]	[illegible]
Three months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Six months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nine months	[illegible]	[illegible]	[illegible]	[illegible]	—	—
One year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Two years	[illegible]	—	—	—	—	—
Three years	[illegible]	—	—	—	—	—
Four years	[illegible]	—	—	—	—	—
Five years	[illegible]	—	—	—	—	—

ECGD Fixed Rate Export Finance Scheme IV: Average Rate of Interest period April 4 to May 1 1984 (inclusive): 8.934 per cent. Local authorities and finance houses seven days' notice, others seven days' fixed. Finance Houses Base Rate (published by the Finance Houses Association): 9½ per cent from June 1 1984. London and Scottish Clearing Bank Rates for lending 9½ per cent. London Deposit Rate for sums at seven days' notice 5¼-6 per cent. Treasury Bills: Average tender rate of discount 8.9245 per cent. Certificates of Tax Deposit (Series 6): Deposit of £100,000 and over held under one month 9 per cent; one-three months 9¼ per cent; three-six months 10¼ per cent; six-nine months 10¼ per cent; nine-12 months 11 per cent. Under £100,000 9 per cent from May 31. Deposits held under Series 4-5 10 per cent. The rate for all deposits withdrawn for cash 7 per cent.

MONEY RATES

NEW YORK (4 pm)

Prime rate	12½
Broker loan rate	11½
Fed funds	10⅞
Fed funds at intervention	10¾

Treasury Bills

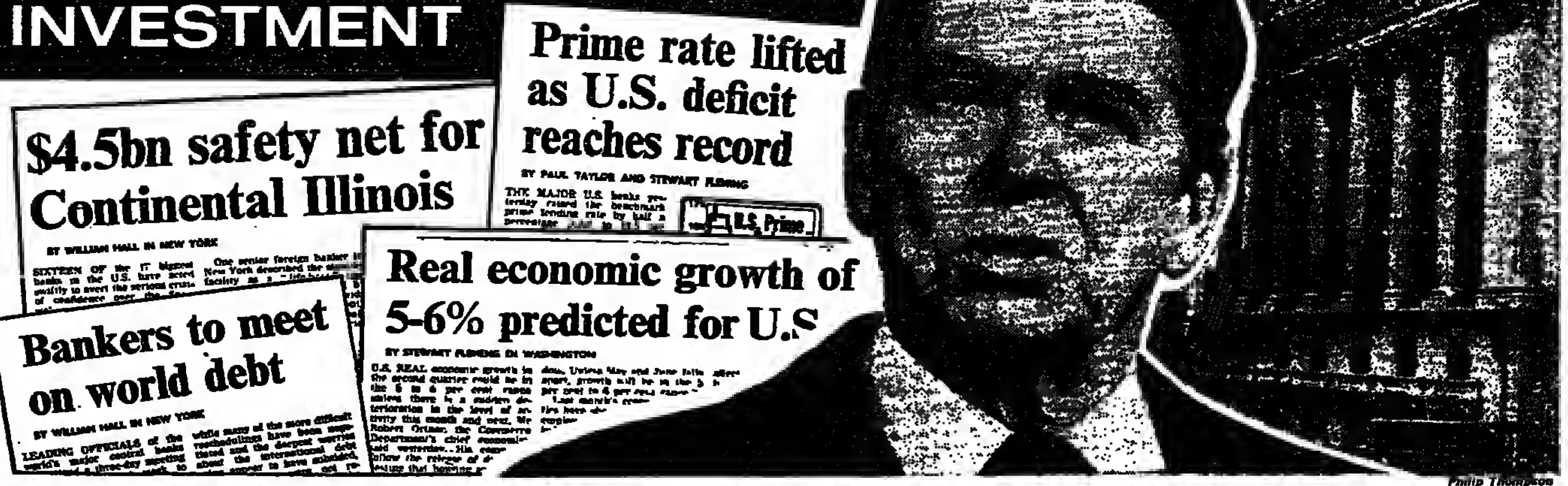
One month	8.20
Two month	8.75
Three month	9.80
Six month	10.45
One year	10.80

Treasury Bonds

Two year	[illegible]
Three year	[illegible]
Four year	[illegible]
Five year	[illegible]
Seven year	[illegible]
10 year	[illegible]
30 year	[illegible]

FINANCIAL TIMES SURVEY

UNITED STATES
FINANCE AND INVESTMENT



Philip Thompson

Uncertain portents for President Reagan in election year. Industrial investment, output and profits have forged ahead, but in the financial markets doubts have emerged. The international debt crisis looms over the banking system and concern is growing about the pace of deregulation in financial services

BY OUR NEW YORK STAFF

ONE YEAR into the recovery the U.S. economy is bounding ahead with a vigour virtually no one dared consider possible just 12 months ago. Profits have rebounded dramatically, industrial production has leapt back to its record 1979 level, investment has risen sharply, and unemployment has slumped to levels where economists are once again worrying about labour shortages.

Yet this picture of robust good health contrasts sharply with recent performance of the U.S. financial markets since January. Both the debt and equity markets have behaved as though they could detect some sinister ogre just around the corner.

Fixed interest investors have become particularly edgy as short-term rates have risen by 100 basis points since mid-January and long-term yields have jumped by almost two percentage points to around 13.50 per cent. Yet even at these lofty nominal and real yield levels investors' appetites for all but the shortest maturities remain thin.

These higher yields, in nominal and real terms, coupled with the strength and relative stability of the U.S. economy have generally helped maintain the U.S. as an attractive haven for overseas investment—and maintain the dollar's strength, until recently at near record highs against most other major currencies, despite a yawning trade deficit and warnings of an impending dollar "crisis" from most senior economists.

However, investors' nerves, both domestic and foreign, have not been helped by last month's forced bail-out of Continental Illinois. Chicago's oldest and proudest bank and the eighth largest in the U.S. and the recent fear that a major Latin American borrower like Argentina might renege on its interest payments to the U.S. banks.

For one week last month while the authorities and the big banks were desperately trying to stem the run on Continental Illinois, the market's calm retreat became a shambling rout. Bond prices plunged as dealers tried to unload heavy portfolios of unwanted newly issued government stock. In the money market there was a sharp but brief flight to quality before the Fed stepped in to supply the banking system with liquidity and the U.S. Government forcefully indicated that it would not allow a major U.S. bank to fail.

The equity market, with so much to cheer about in the real economy, has been slower to take fright, but nevertheless has been steadily forced lower. After hitting a peak of 1,286.64 on January 6 the Dow Jones Industrial Average been pushed down to a 1,100 to 1,160 trading range, and new issue activity, having reached record levels last year, has dropped back dramatically. The price to earnings ratio of the S and P 500 is currently less than 9 instead of the 14 some analysts believe underlying corporate cash flow justifies.

The market's current malaise reflects the concern about the funding of the fiscal 1984 $178bn federal budget deficit, and prospective deficits of a similar size in future years against the backdrop of soaring business and consumer borrowing. But it also reflects fears about the very pace of growth in the U.S. economy itself. In many senses the strength of the U.S. economy has become an embarrassment to the U.S. financial system.

The expansion underlines the enormous vitality of U.S. industry once the lever is moved unequivocally to "go." According to Commerce Department figures first quarter profits, which came in at a seasonally adjusted $148.5bn, were up almost 40 per cent from a year earlier.

Gross National Product (GNP), confounding all the year end projections of a slow down, continues to show remarkable growth moving ahead by 8.8 per cent in the first quarter, industrial production grew by a further 1.4 per cent in April to 163.1 compared to 142.6 a year ago while the unemployment rate has moved steadily down from its 10.7 per cent peak in December 1982 to 7.7 per cent in April. Meanwhile inflation, which clocked in at an annual rate of 5.6 per cent in April, still shows little sign of the much feared re-ignition.

Until the start of this year when concern about "overheating" moved to the fore the sharp rebound in U.S. economic activity was all good news for the equity market. 1983 was indeed a "golden year" on Wall Street. U.S. corporations raised a record $89.9bn through debt and equity issues, more than 50 per cent up on the previous year and initial public offerings (IPOs) came in at the rate of three a day raising a total of $12.6bn compared to $1.5bn in 1982.

Share trading volume on the major U.S. exchanges grew by 50 per cent while new instruments such as stock index futures and options contributed to a bumper year for the securities industry. New York Stock Exchange members alone saw net earnings jump by 26.4 per cent to $1.96bn.

The further "internationalisation" of trading also helped lift earnings while new opportunities—both on Wall Street and elsewhere in the world's capital markets—has spurred a new wave of strategic acquisitions like Citibank's purchase of a minority stake in Vickers da Costa, the London stockbroker.

Even the downturn in the market has brought about a flurry of activity of a different kind. Egged on by "corporate raiders" U.S. industry has been reshuffling its assets on a gigantic scale.

In addition managements and Wall Street investment banks have rushed in with an unprecedented string of leverage buy-out deals. Since the start of this year alone three mega-dollar deals worth a total of $5.8bn have been launched.

Editorial production of this survey by Mike Smith

This wave of corporate merger and other activity is one factor behind the boom in short term business borrowing, including bank loans, which has halted, at least temporarily, the restructuring of corporate balance sheets.

The banks, concerned about their heavy exposure to Latin American nations where they have over $80bn outstanding, have been falling over themselves to lend to U.S. industry but competition for a slice of the lending boom has forced margins down to rock bottom.

Meanwhile the pace of deregulaton within the financial services sector continues apace putting further pressure on the banks' traditional lines of business. Conglomerates like American Express are continuing to build a new type of financial services empire offering a wide range of products to individual and corporate clients.

Among the three major acquisitions made by Amex in the past 18 months the group recently bought Lehman Brothers, one of Wall Street's premier investment banks which—like other market players—discovered that changes in the workings of the markets required a stronger capital base than its traditional partnership structure could supply.

The banks themselves, although still hamstrung by regulatory and legal constraints, are also struggling to position themselves in the fast-changing financial market place. They have continued to rush headlong into the securities industry buying discount brokerage firms.

Like other participants in the U.S. financial services industry the banks have been probing for legal loopholes in existing legislation to allow them to offer a broader range of services on an expanded geographic basis. In one of the most recent examples virtually every major U.S. bank has applied for permission to set up limited-service consumer banks nationwide.

But the piecemeal erosion of regulatory and other distinctions between banking, insurance and the securities industry is causing increasing alarm and concern among some industry participants and the regulators.

Indeed it is possible to detect a new enthusiasm for re-regulation — or at the least more controlled deregulation — particularly following some of the more spectacular failures in the U.S. financial services industry over the past 12 months.

Against this backdrop of opportunity and risk the immediate performance of the U.S. financial services sector and the markets will hinge upon what happens to the economy, interest rates and inflation over the next year. Its attraction to foreign investors will also crucially depend upon the dollar which is currently confounding all predictions and holding at near record highs despite the yawning trade deficit.

Recently the Business Council, a group of chief executives from America's top companies, predicted that the economy will grow at 5.6 per cent this year and a further 3.1 per cent next year. They said inflation will rise only marginally but remained deeply split on the interest rate outlook with some predicting a prime rate above 15 per cent next year and others suggesting there would be a much more modest half point rise from the prime's current 12.5 per cent level.

What no one can predict is how the Fed will react to domestic economic pressures and another wave in the international debt crisis brought on by the recent sharp increase in U.S. interest rates. The final "wild card" in the pack is that, amid all this turmoil, it is a presidential election year—and the markets have yet to fully face up to that additional uncertainty.

Despite the strength of the dollar the inflow of funds is holding up well and in some areas is even increasing

Activity subdued after near-record year

LAST YEAR saw a substantial increase in foreign investment in U.S. dollar denominated securities as non-U.S. investors watched Wall Street make its dramatic response to the recovery in the U.S. economy. But the increased investment was by no means uniform, with Canada and the Latin American countries continuing to buy U.S. securities throughout the year but the European nations curbing their activities in the second half of the year when U.S. markets looked less sure of themselves.

Net foreign investment rose by 39 per cent to $5.4bn, almost equalling the record total of $5.8bn in 1981. U.S. equity markets offered the best growth opportunities in the first half of the year, although these were reduced later when the London markets remained strong while New York was prey to renewed fears of domestic inflation, and over the credit policies of the Federal Reserve.

The second part of the year saw a continued increase in trading by overseas investors, although the reduction in net purchases by European countries indicates that they were swift to sense the malaise of U.S. markets which has progressed into the first quarter of the current year.

But within this general pattern, several significant characteristics can be discerned. A swing from net purchases of $371m to a net sale of $808m by "other Asian countries" last year discloses the hand of the oil-producing countries of the Middle East, which sold U.S. equities as oil revenues declined and a need for further financing of their own developing infrastructures increased. These sales offset purchases of $164m by the increasingly nervous inhabitants of Hong Kong and of $274m by Japanese investors.

Latin American and Caribbean investment in the U.S. gathered pace significantly, with the South American countries increasing net purchases from $317m to $530m.

Gross transactions in the U.S. markets by European countries almost doubled last year to $90.5m, but their net purchases moved up only from $2.5bn to $4bn.

The reduction in buying on the part of the European nations was substantial. Net purchases fell from $3.5bn in the first half of the year to only $358m in the second half. The final quarter brought a net disinvestment of $431m.

Disenchantment with the U.S. markets grew more marked as prime rates soared during August and the federal reserve showed concern over the strong upswing in the U.S. dollar. Foreign investors, like those in the U.S., enjoyed a few weeks of renewed confidence at the beginning of this year when it was believed that the U.S. economy had slowed down enough to permit a reduction in interest rates without intervention by the Federal Reserve. But current investment by foreigners in U.S. markets remains relatively subdued.

German investors were strongly attracted to U.S. markets in 1983. This in part reflected the general considera-

Foreign buying of U.S. securities

TERRY BYLAND

tions which brought other investors into North American equity markets but was also a response to the sluggishness of the German economy in the first half of the year. By the end of 1983, net purchases of U.S. equities by German investors stood at $1.1bn, against only $332m in the previous year, and slightly ahead of the previous record total of $900m in 1981.

The German investor was a little slower than other Europeans to reduce his buying of U.S. securities last year but the total was cut back sharply in the final quarter, when net purchases tumbled from $237m in the third quarter to only $56m.

The Swiss, long established investors in transatlantic markets, also moved heavily into U.S. equities, although by the end of the year, they were withdrawing into their own stock markets as both domestic currency and economic factors turned positive.

Purchases of U.S. equities by Swiss investors reached a record $1.3bn in 1983, after recording a net disinvestment of $579m in the previous year.

The French made little change in their investment policies towards U.S. securities markets. Net sales of $100m were made in 1983, after net sales of $143m in 1982. The relatively minor increase in selling represented a response to the austerity programme introduced by the French Government in March last year.

But the UK investors sharply reduced their net purchases of U.S. equities, in a significant change from the policies of the years since the abolition of exchange controls at the end of 1979. Net purchases of $1.5bn of U.S. equities last year by British investors compared with $3.1bn in 1982 and $2.2bn in 1981.

Moreover, the UK investor was quick to cut back on U.S. purchases as Wall Street began to sour in the latter half of the year. In fact, most of the British net purchase total was committed in the first quarter of the year when $1.2bn was put into the markets. By the final quarter, the British were disinvesting by $62m for the three month period.

The reasons behind the rapid cooling off in UK buying are manifold, ranging from the prospects perceived for the UK economy, to the performance of other foreign markets to the prospects for the U.S. dollar.

In a review of UK pension investment overseas, Phillips Drew, the UK brokerage house, estimates that the return on UK overseas equity investment, taking into account changes in local currencies against sterling and vice versa, and also income received on the investment, put the U.S. well below other major markets in 1983. Total return from the U.S. was 36.6 per cent, compared with 38.1 per cent from investment in Germany, 41.4 per cent in Japan and a massive 73.7 per cent in Australia. The period since the ending of exchange controls has seen the rate of return on UK investment in foreign markets moving ahead of that of domestic markets, and changes in return are now more keenly watched by UK fund managers.

Wall Street has given little encouragement to foreign investors to resume their plunge into the U.S. in the first quarter of this year. With the downturn in the dollar now pushed into the future once again, and domestic U.S. investors unsure which way to turn, foreign investors are likely to remain cautious until the weather clears.

SELECTION OF FOREIGN TAKEOVERS OF U.S. COMPANIES, 1983-1984

Target	Bidder	Country	Price ($m)	Date
Harris Bancorp	Bank of Montreal	Canada	544.2	October 1983
U.S. Industries	Hanson Trust	UK	531.0	May 1984
Walter E. Heller & Co. Walter E. Heller Overseas Corp.	Fuji Bank Ltd	Japan	425.0	April 1983
Peoples Drug Stores Inc.	Imasco Ltd	Canada	320.0	February 1984
Bancal Tri State Corp.	Mitsubishi Bank Ltd	Japan	282.0	August 1983
Somerset Importers of N.Y.	Distillers Company	UK	250.0	April 1984
Tom's Foods	Rowntree Mackintosh, plc	UK	215.0	April 1983
Coca Cola's Wine Spectrum	Seagram Co.	Canada	200.0	September 1983
Amdahl (49.5%)	Fujitsu	Japan	189.2	March 1984
Martin Marietta's Cement Plants	Blue Circle Industries	UK	150.0	March 1983
Microdot	Private Group	UK	121.0	January 1984
Houston Post	Toronto Sun Publishing	Canada	100.0	October 1983
Pittston Petroleum	Ultramar, plc	UK	100.0	March 1983
First Maryland Bancorp	Allied Irish Banks	Ireland	95.0	November 1983
Chicago Sun-Times	News Corporation	Australia	90.0	November 1983
Curtin Matheson Scientific	Fisons	UK	85.0	February 1984
Roberts Consolidated Industries	Beecham Group plc	UK	85.0	March 1984
Amax Petroleum	Britoil	UK	82.0	February 1984
Albany International Inc	Charterhouse Group	UK	73.0	February 1984
Martin Marietta's Sodyeco Division	Sandoz Ltd.	Switzerland	72.0	January 1983
Dap Inc.	Beecham Group plc	UK	70.0	January 1983
American Banker, Bond Buyer	International Thompson Org.	Canada	58.0	February 1983
First Los Angeles Bank	Instituto Bancario San Paulo di Torino	Italy	56.1	January 1983
Silvey Corp.	Royal Insurance plc	UK	50.7	October 1983
Sun Resorts	Southern Sun	S. Africa	50.0	March 1983

Compiled by Rivka Nacboma

Even the bad times are good

EVEN IN bad times the U.S. market has been a magnet for foreign corporate investment. Last year was no exception—despite the relative strength of the dollar.

Indeed foreign companies stepped up their manufacturing investment in the U.S. in 1983, elthough the number of outright acquisitions ectually declined.

The increase in foreign manufacturing investment last yeer —380 reported investments compared to 271 in 1982 according to Conference Board figures—reversed a recession-induced three year decline. While the increase was modest it breaks a steady slide begun after 1979 when foreign companies reported 431 new investments, the independent business information group noted.

Mr David Beuer, manager of International Data Research for the board, added: "The upward trend in foreign investment is likely to continue throughout 1984. The ongoing U.S. recovery eppears to be steadily whetting the appetites of foreign firms, many of whom shelved investment plans during the 1981-82 recession."

The turnaround in 1983 was propelled by a sharp increase in new manufacturing plants, or "green fields" projects, by foreign based companies. A total of 145 new foreign investments last year involved the building or expansion of plants in the U.S., up from 118 in 1982.

In contrast Conference Board figures, and those of W. T. Grimm's research department, suggest the number of outright acquisitions fell for the second year running to the lowest level since the early 1970s.

W. T. Grimm blamed the downturn in foreign acquisition

Foreign corporate investment

PAUL TAYLOR

activity on "the widespread recession experienced by foreign economies together with the persistent strength of the U.S. dollar."

According to W. T. Grimm's figures, foreign ecquisitions fell to 125 compared to 154 in 1982 and 234 in 1981. The figures would bave been still lower but for the inclusion of foreign acquisitions of the overseas based subsidiaries of U.S. compenies which, for example, lest year included the $2.4m purchase of GE'a Utah International unit by Australia's Broken Hill Proprietary Company.

The implication therefore is that foreign based corporate investors bave been concentrating their investments either on expanding existing faciltics — or on buying less than 100 per cent stakes in existing U.S. companles — as the recent rash of major joint ventures including involving European and Japanese companies suggests.

This "strategic positioning" extends all the way from Japanese investments in the U.S. ateel and auto industries — like Nippon Kokan's 50-50 joint steel venture with National Steel and General Motors' Fremont, California joint subcompact car venture with Toyota Motor — to high-tecb joint ventures such as Fujitsu's minority stake in Amcahl Computers and L. M. Ericsson's development and merketing partnership with Honeywell.

In some cases these investments eppear to be both an attempt to take advantage of the buge U.S. domestic market and a potential defence against protectionist measures.

Within the manufacturing sector the UK continues to bead the list of direct foreign investments in the U.S., followed by Japan, West Germany, Canada and Switzerland.

The manufacturing sectors which eppear to be attracting most foreign interest are the chemicals, food processing, oil and gas and printing end publishing industries. This pattern appears to be continuing in 1984 and is bighlighted by the continuing burst of activity by Canedian and Australian companies in the newspaper industry and Hanson Trust's bid for U.S. Industries.

Outside the manufacturing sector the dynamic financial services sector, is continuing to attract international buyers. As the Wall Street securities industry becomes increasing "internationalised" with major investments by European companies like Paribas in A G Becker—the commercial banking end finance industry is again ettracting the attention of foreign buyers, despite its problems.

Last year saw Benk of Montreal bid $544.2m for Harris Bancorp of Chicago, Fuji Bank outbid California's Security Pacific with a $425m offer for the commercial finance operetions of Walter E Heller, Allied Irish Banks pay $95m for a Maryland banking group, Institutio Bancario San Peoldi Trino of Italy pay $56.1m for a loss Angeles benk and Mitsubishi Bank outbid local competitors for California's Bancel Tri State.

Confidence in commercial property rides high

THE AMERICAN property investment market is enjoying a period of strength and confidence which is creating tough competition and pushing down traditional returns on commercial property.

The buoyanl pattern has been spreading, despite the fact that the nationwide recovery in the direct property market has been far from uniform and that many centres still appear weak.

Indications of the continuing weakness were recently reflected in the nationwide office vacancy index compiled by Coldwell Banker, the property brokers, which in March this year rose to just over 13 per cent, nearly three times the level recorded two years ago.

Despite continued healthy leasing levels in many cities continuing weaknesses bave been created by the large supply of newly constructed and modernised space coming on stream. New space has repeatedly outpaced demand and a further wave of additional projects available in the next few months is likely to see overall vacancy rates rise still further.

Even so, confidence in commercial property as an investment medium is currently high and is firmly underlined by the volume of funds in search of suitable propositions.

The U.S. institutions, which have traditionally kept exposure levels to property extremely low by European standards, are now building up this element of their investment portfolios—but they do not heve the market to themselves.

Syndicators, who have been principally responsible for the recent big increases in prime property prices, are this year likely to spend up to $10bn in the market, despite moves in Congress to clip their wings via tax legislation.

The activities of some of the syndicators beve created widespread concern and considereble criticism but the volume of funds al their disposal has proved to be immense and there is little doubt that, however their activities are curtailed, they will remain e major force in the market place.

In addition, tha revitalised ssvings and loans associations are also looking to commercial property to provide a suitable investment platform and bave been active participants in the merket.

Nor can major private investors be ommitted from the equation. In the U.S. their influence is much more substantiel than in many other internetional markets and some of the largest are quite capable of bolding their beads up alongside the institutions.

Whatever the type of investor, the object of interest is usually existing prime quality buildings in major centres. The inevitable result is sharply rising prices for a relatively scarce product, particularly in the case of top quality office accommodation and regional shopping centres.

According to the National Council of Real Estate Investment Fiduciaries, which compiles performance informetion on a U.S. institutional portfolio worth $6bn, property showed an aversge annual return of 13.3 per cent during 1983.

The total consisted of 7.8 per cent income growth and 5.5 per cent capital growth. It brought

Real estate market

MICHAEL CASSELL

the five-year averaga return to 18 per cent. Last year alone, retail showed an average return of 15.6 per cent, offices showed 12.2 per cent growth and industrial property managed 13.7 per cent.

Such figures go a long way to explain the attractions of American commercial property to overseas investors, who remain keen to establish a foothold despite the present strength of the dollar and the higher risks involved in non-domestic investment. They would do well to remember, however, that landlord liabilities in the U.S. can look onerous when compared with the responsibilities traditionally accepted by owners in many other countries.

In its latest report on the U.S. investment market, Richard Ellis says foreign investors appeared simply to have reconciled themselves to current exchange rates. It is also worth remembering that many are now in a position to purchase with dollars.

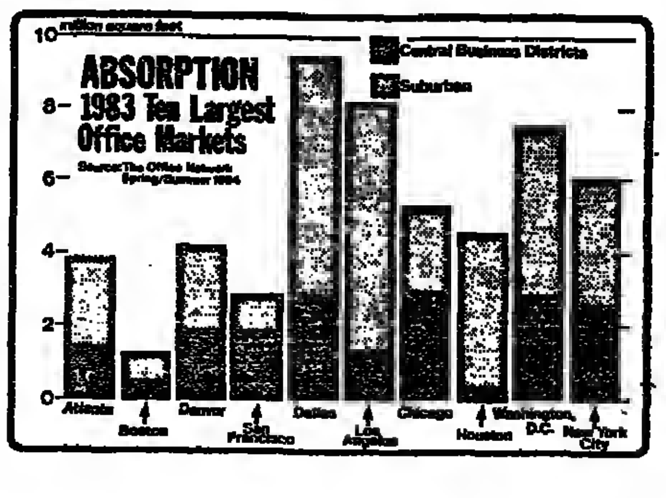
Ellis goes on to say that yields in several key markets have experienced significant downward pressure as investment interest remains high. Boston, for example, emerges as possibly the most sought-after location for investment funds, although San Francisco remains very popular with overseas buyers.

Ellis reports expectations among investors that the Washington DC lettings market will revive by the end of 1984 and says that both U.S. and foreign funds are stepping up their activity in many of the key centres like New York, Los Angeles (particularly in the central business district) and Philadelphia.

The Manhattan market is proving remarkably strong and the competition for prime property which does become available is increasingly tough. Two factors have had a considerable effect on the local investment market.

The imposition by New York State of a 10 per cent capital gains tax has further reduced the incentive of property owners to sell, particularly as mortgage finance is readily available as an alternative. Secondly, the differential in property tax liabilities between those buildings that have recently been sold and those that have not continue to cause problems for the market.

But despite such difficulties, demand for prime investments seems certain to remain at its current high level, particularly for outright purchases. With opportunities for new development becoming increasingly restricted, yields on existing prime investments in Manhattan will continue to confront downward pressure.



18 months of key financial events

JANUARY 1983

American Express acquired the non-U.S. international banking business of Trade Development Bank Holdings for $250m.

BankAmerica was given permission to buy Charles Schwab Corp discount brokerage firm.

APRIL 1983

Fuji Bank, of Tokyo, agreed to buy Walter E. Heller's two commercial finance units for $425m.

MAY 1983

Trading was halted in the bonds of Washington Public Power Supply System (WPPSS).

JUNE 1983

Seafirst Bank received a $700m loan from the Fed after several banks pulled out of a private lending arrangement which had been put together in January, to help the ailing Washington State Banking Group, later acquired by Bank of America for $250m.

JULY 1983

Washington Public Power Supply System defaulted on $2.25bn in bonds, the largest municipal default on record.

AUGUST 1983

Mitsubishi Bank of Tokyo, agreed to acquire Bancal Tri-State Corp, of San Francisco, for $282m.

First Chicago Corp agreed to acquire American National Corp, Chicago's fifth largest bank, from Walter E. Heller for $275m.

SEPTEMBER 1983

Baldwin United Corp filed for reorganisation under chapter 11 of the U.S. bankruptcy code.

RCA agreed to sell its CIT unit to Manufacturers Hanover Corp for $1.5bn.

American Express, after a stop-start love affair, acquired Allegbany Corp's Investors Diversified Services (IDS) for $790m.

A federal grand jury returned a 51-count indictment against Swiss-based commodities group, Marc Rich.

October 1983

Bank of Montreal agreed to buy Harris Bancorp, of Chicago, for $546.6m.

Vice-President Bush: his task force proposed radical reforms of banking regulatory agencies

A Presidential task force, headed by Vice-President George Bush, proposed a new, radical reform of the U.S. banking regulatory agencies.

January 6 1984

The Dow Jones industrial average reached a record high of 1286.64.

February 1984

A New York state commission proposed thet state-chartered banks should be allowed to buy insurance companies.

March 1984

The Fed approved an application by the U.S. Trust Company of New York, to open a non-bank in Florida, opening the way to a flood of similar applications by U.S. banks nationwide.

April 1984

Shearson / American Express agreed to acquire Lehman Brother for $360m.

Mersh McLennan announced it would take a $90m extra-ordinary, after-tax charge in its first quarter as a result of unauthorised, government bond trading.

May 1984

Paribas to take complete control of A. G. Becker, the New York Investment Bank, in which it already had a 55 per cent stake.

Lion Capital Group, a government securities firm, filed for protection under Chapter 11 of the U.S. bankruptcy code.

The U.S. prime rate was raised to 12½ per cent, the second increase this year, the highest level since October 1982.

Long bond prices tumbled, pushing the 30-year government securities yield to 13.64, the highest since August 1982.

K Mart, the retail group, announced that CDs and money market funds will be offered through some of its department stores.

RTD Securities, a Government securities firm, filed for protection from creditors under chapter 11 of the U.S. bankruptcy code.

Continental Illinois got a $7.5bn rescue package and an effective £4bn loan guarantee from the Federal Government and leading American banks.

Inflation is under control and output is growing rapidly but the budget deficit is casting a long shadow over continued recovery

Why Wall Street is ignoring successes of Reaganomics

Economic trends

STEWART FLEMING

TO Mr Donald Regan, the U.S. Treasury Secretary, the economy is a pillar of stability imparting its own dynamism to the rest of the world. "The economy," he told Congress in February after the publication of the Reagan Administration's 1985 Budget "is poised for a long period expansion without a return to high rates of inflation."

Just a few blocks away from the Treasury building in Washington, another institution, the International Monetary Fund, an institution incidantally which knows that it depends rather heavily on the goodwill of the White House, paints a different picture of the U.S. economy. In its World Economic Outlook published last month the IMF writes: "The high interest rates and the associated strength of the dollar appear to constitute a potential threat to smooth and sustained global economic growth," adding "the single most beneficial change in the world economy in present circumstances would be a perception that the U.S. was taking action to contain and eventually reduce its underlying budget deficit."

Recognition

It is partly the recognition that both views of the future cannot be correct, and the suspicion that under the influence of electoral priorities the Reagan Administration's policy-makers have put their critical faculties into neutral, which helps to explain why Wall Street has chosen to ignore the successes of "Reagonomics," the catchword used to encapsulate the Administration's economic programme, and to worry most about the risks that lie ahead.

Some of those successes make impressive reading. Even so stern a critic as Mr Paul Volcker, the chairman of the Federal Reserve Board, has said that with the progress the U.S. has made in the past couple of years in reducing inflation and getting economic growth swinging into gear, it has indeed laid the foundations for a sustained economic recovery . . . if only policymakers can face up to and tackle "other hazards to our prosperity . . . the structural deficit in our Federal budget and tha deficit in our external accounts."

But the Fed chairman has made it plain in both his words and in the ections the Central Bank has taken on monetary policy that it harbours profound doubts about the readiness to attack the hazards promptly. Mr Volcker took the opportunity presented by his testimony to Congress in February to paint a lurid picture of the risks ahead if the twin deficits are not reduced.

He suggested, for example, that foreigners might tire of belping to finance the unprecedented credit demands being generated in the economy by private and public borrowing, warning that "tha stability of the dollar and our domestic financial makets (could) become hostage to events abroad." Other economists have echoed this fear that in order to maintain the inflow of foreign funds interest rates might have to push steadily higher and that if confidence in U.S. economic policy wanes there will be a growing risk that instead of sinking with dignity to a more reasonable level, the dollar could be caught up in the maelstrom of a currency crisis.

With such a possibility being contemplated if steps are not taken to cut the prospective $200bn budget deficits in the second half of the decade, and the huge trade deficit expected this year, it is scarcely surprising that the IMF is concerned that the U.S., instead of being a pillar of stability, could become again the world's biggest economic headache.

The outlook must be all the more frustrating to economic policymakers outside the White House and the Treasury in view of the opportunity which is in danger of being missed.

Since the Fed stepped on the monetary accelerator in September 1982 and added its turbo charger to the fiscal stimulus of rising defence spending and supply side tax cuts, the U.S. economy has roared back into life. In 1983 real economic growth hit 3 per cent, and this year with first-quarter real growth of 8.3 per cent and the second quarter likely to come in around the 5 per cent mark, the consensus forecast is suggesting real GNP could rise by almost 6 per cent.

No less impressive, inflation which hit 13.5 per cent in 1980 had slowed from a gallop to a crawl by 1983 and is unlikely to rise much above 5 per cent this year. Meanwhile capital spending has taken off and plant and equipment spending could rise by 14 per cent in real terms in 1984.

Tha U.S. Treasury's argument that all this has helped to drag the world out of the economic doldrums contains more than a grain of truth.

The U.S. has been sucking in foreigo imports at an unprecedented rate and looks like running up a trade deficit in the $120bn range this year, almost double the 1983 figure and a boon to foreign producers of consumer and capital goods and raw materials.

Is it just an unrelenting pessimism which is leading the developed and developing world ontside the U.S. to treat Republican Americans bearing such gifts with so much suspicion? Not entirely. Given both the size of the budget deficit and the inability to finance it and the private sector domestically, the federal deficit is a monster which could all too quickly get out of control.

The Congressional Budget Office has predicted that the deficit could rise to as much as $300bn in the next coupla of years if a couple of things were to go wrong like, for example, the U.S. economy sliding into even a mild recession and interest rates stubbornly refusing to sink to levels which tha Reagan Administration feels are justified. Tha budget cutting which ahould get done beforeband is of only symbolie value in 1985.

Both the House and the Senate have now passed 1985 budget proposals which will bave to be reconciled in a conference of the two legislative bodies.

More important, however, is the fact that even if the proposed cumulative $142bn of deficit cuts over three years contained in the Senate version of the budget cutting programme were to be realised, it would still leave deficits in the $200bn range at the end of the decada according to estimates made by the non partisan Congressional Budget Office.

Moreover the cuts will not really begin to bite until 1986 and 1987. In the meantime mora steps will be needed after the Presidential election in November and it is too facile to assume that these will be easy to achieve.

Standstill

In the meantime credit demands from both the Government and the private sector (corporate and consumer) have already begun to clash, rather earlier than many economists anticipated. With the long term corporate bond market virtually at a standstil, new equity issues hit by the plunge in the stock market and corporate cash flow being overtaken by financing needs, interest rate pressures have built up in the financial markets.

Since a year ago, when the Fed first began to "lean against the wind" by cautiously tightening its monetary policy, the prime rate bas risen from 10.50 per cent to 12.50 per cent and 30 year Treasury bonds have jumped from just under 10.75 per cent to almost 13.50 per cent.

The interest rates increases, and tha conviction that the markets have been witnessing the beginning of the normal cyclical rise in interest rates whicb still has some way to go, bave alerted the markets to the risks ahead. Nobody is quite sure just what level of interest rates or real interest rates will hit domestic economic activity or wbat level of rates will be needed to keep foreigners interested in investing in the U.S.

What is not in doubt however is that the ominous international debt crisis is becoming increasingly threatening as U.S. interest rates.

The possibility of e sustained economic upswing which could last until late in the decade is still just about conceivable. At 5 per cent, inflation is still moderate and bold action to improve the mix of fiscal and monetary policy could take the upward pressure off interest rates and narrow the extraordinarily wide margin between the inflation rate and the level of interest rates.

But so favourable a course of developments is looking less and less likely. The fragility of the financial markets, the strength of the current upswing, the continuing fiscal stimulus and the domestic and international constraints on the Federal Reserve Board's freedom of action are all pointing in the direction of yet another stop-go cycle for the U.S. economy.

Continued strength causing nervousness

The dollar

STEWART FLEMING

FOR A FEW weeks at the beginning of the year it began to look as if one of the most remarkable financial phenomena of the post war era, the spectacular rise in the value of the dollar on the foreign exchanges since President Ronald Reagan took office, was about to be reversed.

As the stock market plunged and the Reagan administration was forced to survey the ruins of its foreign policy objectives in the Lebanon, the U.S. currency began to weaken amidst predictions from some of Mr Reagan's advisers that we were witnessing the steady erosion of the value of the dollar which would begin to offset some of the distortions in the economy which the high flying currency was creating. A sharp rise in interest rates since January halted the slide which seemed to be getting underway, but it has left currency dealers and economists more concerned than they were about the potential instability of the dollar at a time when the U.S. is heading for another record current account deficit which could approach $80-$90bn this year.

From its lows in 1980, the dollar had risen on a trade weighted basis by some 60 per cent by January of this year. In real terms the increase is significantly less (about 44 per cent by the fourth quarter of 1983).

Overvalued

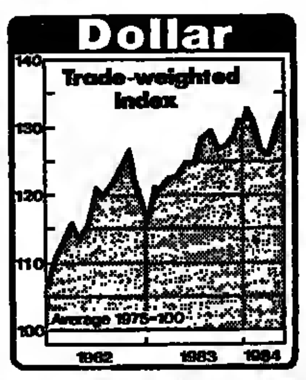
But even after allowing for the fact that it was starting from a particularly depressed level in the midst of America's worst post war inflation, economists such as Mr C. Fred Bergsten of the Institute for International Economics in Washington have estimated that in historical terms the U.S. currency is some 25 per cent overvalued, an estimate widely shared amongst professional economists.

Initially at least the Reagan Administration's reaction to the strength of the dollar was one of profound satisfaction. It was seen as yet another symbol of the improved standing of the U.S. in the world, both politically and economically, which had been a top priority. The strong dollar also had some important economic spin offs. At a time when defeating inflation was a major goal of economic policy makers, the rising dollar was making an important contribution to this objective by reducing the costs of imports and adding to the pressures for price restraint in the domestic markets. There was rather less concern about the impact of the dollar on U.S. trading partners and allies.

Today, however, it is possible to trace within the Reagan Administration a rather less self-satisfied attitude towards the strength of the currency.

It should be no surprise, of course, that it is Mr Baldriga who is apparently most concerned about the strength of the dollar. For it is the Commerce Department, which through its role in administering the U.S. trade laws, which is having to bear the brunt of one of the most serious problems which the strong dollar has belped to create for the U.S., namely the startling surge in imports and the nothing short of dramatic deterioration in the U.S. trade balance.

A decade ago the U.S. ran a small trade surplus. As recently as 1981, helped by its bealthy net investment income position, the current account also showed a small surplus ($4.6bn). The trade deficit then on a C.I.F. basis was just under $40bn and was just over $42bn in 1982. Since then the trade account has collapsed. In 1983 the deficit hit $70bn, and it is projected to rise to around $120bn in 1984.



The deterioration in the trade account can be traced back to several factors. An important one has been the Third World debt crisis, particularly in Latin America, which bas bit U.S. exports to the region. The fact that the U.S. has also emerged from recession much earlier than its industrial trading partners and began to suck in imports from abroad mnch more quickly has also played an important role. But as Stevan S. Roach, an economist with the investment banking firm of Morgan Stanley has written recently, "The major culprit behind the sharp surge in imports . . . is the strength of tha dollar in world currency markets."

Domestically, tha dollar's strength is baving a number of worrying repercussions. The most obvions is that some U.S. industries are finding that they are losing out to foreign competition partly because of the price advantage the strong dollar offers.

It is already apparent for example that in spite of economic recovery and the sharp fall in unemployment, there bas been no easing of protectionist pressures in the U.S. and the continued loss of market shares to imports is one reason for this. Perhaps, more ominous, is the danger that the strength of foreign competition could become a drag on the domestic economy. Hitherto this has not been a serious problem. The weakness of net exports previously has, according to some estimates, reduced U.S. gross national product by around one quarter over the past year. Given the strength of the upswing, however, this has not mattered except to individual sectors and workers who have suffered as a result. Bnt given the imbalance between monetary and fiscal policy, and the threat that interest rates probably kept up the pressure of credit demands, it may well be imports will continue to flood in as the pace of economic growth eases and that high tech sectors of the economy, not just declining "smokestack" industries, will begin to worry more about the strength of foreign competition.

The inherent instability of the current situation is underlined by the risks on the other side. Were the dollar to collapse as a result of an emerging lack of confidence in U.S. economic policy—a not altogether unreasonable assumption given the far from encouraging prospects for next year's efforts to cut the federal budget deficit—the U.S. might find itself in the vicious circle of a plunging currency adding simultaneously to both the costs of imports and therefore the size of the trade deficit, and to domestic inflationary pressures. Increasingly, therefore, the argument is being made that far from being a symbol of the recovery in the international stature of the U.S. under President Ronald Reagan, the strength of the dollar contains the elements of an economic policy denoument which could present U.S. economic policymakers with some unwelcome challenges before too long.

E.S.

Confidence in the U.S. financial system has been shaken suddenly just as the pace of deregulation has begun to accelerate. Here and on page s 5 and 6 an examination of the developments

Problems over free market economics

THURSDAY, May 17, 1984, will be remembered for a very long time in the U.S. financial community. It was the day that the U.S. Government mounted its biggest ever rescue effort to stop the run on the Continental Illinois National Bank and Trust Company, the biggest bank in Chicago and the eighth biggest bank in the U.S.

In terms of actual money put up by the Government the sums at first sight do not seem all that large. The Federal Deposit Insurance Corporation is injecting $1.5bn of capital into Continental, and the commercial banks, which are also providing a $5.5bn standby facility, are putting up another $500m. The capital injection roughly doubles Continental's capital.

Much more important, the U.S. authorities have given an open ended guarantee of Continental's deposits until a permanent solution to its problems is found. Although the U.S. bank regulators would probably disagree, this means that Continental Illinois, in the eyes of most bankers, has been given a $41bn government guarantee.

The fact that the U.S. government had to swallow its public adherence to free market economics, and take such drastic measures to stem the run on Continental Illinois underlines the seriousness of the situation it faced in mid May. For a few days there was a very real danger that the major crisis of confidence surrounding Continental Illinois, Chicago's oldest and proudest bank, would spill over to the rest of the U.S. banking community and endanger world confidence in the international banking system.

Life will never be quite the same again. It will be some time before the implications of the rescue of Continental Illinois are fully analysed, but already bankers believe that the U.S. Government has indicated, by its action, that it is prepared to stand behind the top ten banks in the U.S., if they show any signs of collapsing. If this is the case, bankers believe that the U.S. bank regulators will make them pay for that privilege.

U.S. bank regulators have always insisted that banks should be allowed to fail. But they have been very reluctant to allow depositors of even the smallest banks to lose any money because of their fears such action would have on confidence in the banking system, generally.

When Penn Square Bank of Oklahoma City failed in July 1982, following overaggressive lending to the U.S. energy industry, holders of some $190m of deposits were allowed to lose some of their money. However, U.S. bank regulators came under criticism because of the damage this did to confidence in other small U.S. banks. Although, the federal deposit insurance corporation only insures U.S. bank deposits up to a ceiling of $100,000 per person, it effectively is insuring all U.S. bank deposits.

While the reverberations of the Continental Illinois affair will be felt for some time in the U.S. banking community, it serves to underline that the U.S. banking system is in a more frsgile state than might be imagined from a cursory examination of the annual reports of the major players.

True, Continental Illinois was an extreme case. It was far more dependent on purchased money than most other U.S. banks and did not have a comfortable cushion of retail deposits to fall back on when confidence faltered. However, its capital ratios were on a par with its rivals, its problems were well known and its management was relatively well regarded. Yet in the space of a fortnight last month it suffered a dramatic loss of confidence, based on unfounded rumours, with the result that its future as an independent bank is in very real doubt.

David Wyss, chief financial economist at Data Resources, believes that there are "more

Domestic banks

WILLIAM HALL

Continentals waiting in the wings" to unnerve the U.S. banking system." Loan losses have become a severe problem for many banks, and with the cost of funds rising sharply and cash flow being squeezed, it will be difficult for institutions to withstand the losses," he says.

The Federal Deposit Insurance Corporation has just finished analysing the earnings of the 14,000 plus U.S. banks. Its figures show that income before securities transactions fell by 3.3 per cent in 1983 to $15bn while total assets rose 6.7 per cent to $2341.8bn. Net loan losses rose by 27.5 per cent to $8.4bn and non-performing loans rose 12 per cent to $37.5bn. Despite the poor earnings performance, however, U.S. banks were able to boost their capital by about 9 per cent to $140.6bn.

At the individual bank level, performance, not unexpectedly, varies greatly. On a general basis, the regional U.S. banks have performed the best in terms of profit growth and asset growth. Banks from the fast growing southern U.S. states stand out in this respect.

Salomon Brothers in a recent review of U.S. bank performance in 1984 ideotifies the top five U.S. banks in terms of performance as the North Carolina-based Wachovia Corporation, Barnett Banks and Sun Banks from Florida, the Pittsburgh-based PNC Financial Corporation and the Georgia-based First Atlanta.

Like any such ranking of performance, Salomon Brothers listings are subjective but they are based on an analysis of several factors including earnings growth, asset returns, return on equity, credit quality and capital adequacy. Significantly, a "blue chip" banking group, like J. P. Morgan, only ranks half way up the table of 35 U.S. banks analysed by Salomon Brothers, and with the exception of Bankers Trust and Bank of Boston, most of the big U.S. money centre banks are to be found in the bottom third of the Salomon brothers' performance tables.

Although the major money centre banks boosted their capital generally, Salomon Brothers notes that many of these institutions suffered in profitability, asset quality and liquidity. "The stock market's scepticism about the money centre banks is reflected in market capitalisations which are noticeably lower than underlying shareholders funds. Continental Illinois is the most extreme example having a stock market value of under $500m even though its stated shareholder funds are close to $2bn."

A good indicator of how well U.S. banks have been doing over the longer term is the growth in the dividend payouts. Citicorp and J. P. Morgan, widely regarded as the leaders amongst the money centre banks, have increased their dividends by an average 10 per cent a year between 1979 and 1983 according to the Salomon figures.

Aside from Continental Illinois, which has taken the virtually unheard of step of passing its dividend, Crocker National and Interfirst, which both rank among the top 20 U.S. banks, have cut their dividends recently in response to worse than expected problems in their real estate and energy lending portfolios, respectively.

Meanwhile, Seafirst, the 29th biggest bank in the U.S. was rescued by Bank of America in April 1983 after it ran into problems in energy lending.

The recession in the U.S. oil industry has proved to be more severe than many had anticipated and it has had a serious impact on the loan portfolios of several traditional energy lenders. Indeed, it is significant that the problems facing Continental Illinois, Seafirst, Interfirst and the First National Bank of Midland, one of the biggest energy lenders in Texas, are all related to over-ambitious energy lending.

TOP 20 U.S. BANKS
(Ranked by assets, year ending 12/31/83)

Bank Holding Co.	Assets	Non-performing loans	Return on assets	Return on equity	Primary capital as % of assets
	$bn	$m	%	%	
Citicorp	135	2,100	0.67	16.0	4.9
BankAmerica	121	3,314	0.32	7.4	5.1
Chase Manhattan	82	1,900	0.54	12.9	5.3
Manufacturers Hanover	64	832	0.56	12.3	5.0
J. P. Morgan	58	567	0.79	14.8	7.0
Chemical NY	61	876	0.64	14.2	5.5
First Interstate	44	1,221	0.60	13.0	5.5
Continental Illinois	42	1,900	0.27	5.7	5.7
Security Pacific	40	695	0.71	16.1	5.3
Bankers Trust	40	558	0.68	15.7	5.6
First Chicago	36	854	0.53	11.1	5.7
Wells Fargo	27	748.8	0.61	12.3	5.7
Mellon National	26.4	539	0.76	13.7	6.4
Crocker National	23.4	778	(−0.06)	(−1.00)	6.8
Marine Midland	22.9	383	0.48	3.8	6.2
Interfirst	21.7	651	(−0.82)	(−14.7)	6.2
First Bank System	20.2	326	0.72	13.5	5.9
Norwest	12.8	238	0.67	11.6	6.5
Bank of Boston	18.5	326	0.72	14.2	5.2
Texas Com. Bankshares	19.5	220	1.09	18.7	5.9

Research: Rivka Nachoma

What the FDIC said

The following is the text of the announcement by the Federal Deposit Insurance Corporation regarding the financial aid arranged for the Continental Illinois National Bank and Trust Company:

The Federal Deposit Insurance Corporation, the Federal Reserve Board and the Office of the Comptroller of the Currency, together with a group of leading banks, have assembled a comprehensive financial assistance programme for the Continental Illinois National Bank and Trust Company. The programme will provide assurance of the capital resources, the liquidity and the time needed to resolve in an orderly and permanent way the bank's problems.

Under the programme, the FDIC, together with a group of commercial banks, will provide a total of $2bn in capital to the bank in the form of subordinated notes. This capital will be available for the period necessary to enhance the bank's permanent capital, by merger or otherwise. The subordinated notes bear interest at a rate equal to the one-year Treasury bill rate plus 100 basis points. The FDIC board of directors voted to grant assistance pursuant to Section 13(e)(2) of the FDI Act.

Permanent

In view of all the circumstances surrounding Continental Illinois Bank, the FDIC provides assurance that, in any arrangements that may be necessary to achieve a permanent solution, all depositors and other general creditors of the bank will be fully protected and service to the bank's customers will not be interrupted.

To further augment the financial resources available to Continental Illinois Bank, a group of 24 major U.S. banks has agreed to provide over $5.3bn in funding on an unsecured basis throughout the period during which a permanent solution is developed. This agreement was arranged between the Continental Illinois Bank and the group of commercial banks, for which the Morgan Guaranty Trust Company of New York is agent.

The financial assistance programme is designed to enable the Continental Illinois Bank to resume normal patterns of funding in the market to meet its liquidity requirements and to operate normally in other respects. As a part of the overall programme, and in accordance with customary arrangements, the Federal Reserve is prepared to meet any extraordinary liquidity requirements of the Continental Illinois Bank during this period.

The office of the Comptroller of the Currency—the primary supervisor for the Continental Illinois Bank — has worked closely with the FDIC and the Federal Reserve in connection with the structuring of this programme. In the Comptroller's opinion the bank's difficulties will be resolved in an orderly way with the capital and liquidity support provided in this programme.

Awesome potential muscle

The non-banks

WILLIAM HALL

"CAN YOU imagine the airline industry talking about non-airline airlines, or truckers talking about non-truck trucking," mused Tom Williams, chairman of First Atlanta Corporation recently, as be pondered the explosion in applications to set up "non-bank banks" in the U.S. financial services industry.

To bankers like Tom Williams, the rush to establisb the so-called "non-bank banks" is the ultimate crazioess io the regulatory envirooment in which they operate. But it is something they cannot afford to ignore if they want to compete with the new competitors in their traditional market-place.

Since the U.S. Federal Reserve gave U.S. Trust, a small New York bank, permission to establisb a limited purpose "oon-bank bank" in Florida offering checking accouots and consumer loans, in March, the U.S. banking regulators have beco swamped with applications for similar licences. The landmark decision effectively opens the door to banks which want to operate in more than one state, which until now has been the biggest constraint on the geographic expansioo of their business. The U.S. Comptroller of the Currency, who shares responsibility for regulating U.S. banks with the Fed, says that under present law, "non-bank banks" are definitely legal. He bas imposed a moratorium on applications, but bas stressed that it is temporary and unless there is any change in the U.S. banking laws will give applicants the "go-abead." Meanwbile, the Fed, while concerned about the precedent its decision on U.S. Trust bad set, said it bad no choice but to approve the application since the "non-bank" was not going to make commercial loans.

The decision bas focused attention once again on the age-old question of what is a bank. Dee Hock, the president of Visa, the international payments system owned by banks around the world, says tbat "money today is merely guaranteed alpha/numeric data recorded on metal or psper," and as far as be is concerned "a bank is any institution for thet custody, loan, exchsnge or issue of guaranteed electronic alpha/numeric data."

Based on this definition, the number of institutions which could be regarded as banks is a lot wider than people traditionally think. Dee Hock, who is something of a *bete noire* in the banking world, says that the two key questions are: First, which institutions will have the resources to provide acceptable guarsntees, together with the marketing ability to persuade customers to customarily use and rely upon electronic data; and, second, which institutions will best be able to record, transport, exchange and settle electronic value?

Dee Hock is in no doubt who are the banks' biggest competitors. In a recent speech to a conference on telecommunications and financial networks organised by the American Bankers' Association, Hock notes that the combined net worth of the four biggest U.S. bankholding companies is $14.2bn, while Sears Roebuck, Penneys, Amex and Merrill have $16.5bn.

Although many of these "non-banks" are still only nibbling at the edges of the banks' traditional domain, their seriousness in becoming major players io the financial services industry should not be understated. Sears Roebuck, American Express and Prudential Insurance, last year spent a combined $100m on advertising their financial services. This compares with $11.2m of advertising by Citicorp, which is often regarded as tbe most aggressive and innovative of the big banks in the financial services area.

It is against this background that the banks' interest in setting up "non-baoks" should be viewed. The Fed's decision on U.S. Trust was made bacuse the bank holding company Act defines a bank as "An Institution that botb accepts demand deposits and engages in the business of making commercial loans." U.S. Trust got round the rules because it did not intend to make commercial loans through its new Florida operation. Once it had spotted the loophole the other banks jumped in and virtually every major U.S. bank has now asked for permission to open so-called "non-bank banks" or consumer banks, across the U.S.

The U.S. bank regulators bave been concerned for some time about the continued acquisition of "non-bank banks" by securities companies, insurance companies and other non-banking organisations. The Fed has said that these moves "Present the potential for a significant, baphazard, and possibly dangerous alteration of the banking structure without Congressional action on the underlying policy issues."

Tbe regulators are concerned that the exploitation of these loopholes could defeat official policies on commingling of banking and commerce, conflicts of interest, concentration of resources and excessive risk, to say nothing of its impact on the limits on interestate banking.

It is clear that by their recent actions in giving preliminary approval to banks setting up "non-bank banks," the regulators are preparing themselves for a sbowdown with the U.S. Congress which has failed to come up with a comprehensive piece of banking legislatioo.

C. Todd Conover, the Comptroller of the Currency, said recently, when announcing a temporary moratorium on "non-bank banks" that "the need for legislation on the issue is critical." He says he will lift the moratorium later this year evxen if there is no Congressional action on the issue. His statement is clearly designed to put pressure on Congress to act.

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Moves to restructure agencies

Regulators

PAUL TAYLOR

IT IS a testing time for the regulators of financial services in the U.S. and particularly for banking regulators—as events at Continental Illinois in recent weeks have all too dramatically shown.

Three of the regulatory agencies — the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve Board itself—played a crucial role in putting together the $7.5bn rescue package for Continental. The regulators themselves called the package "historic" and "unprecedented."

When the dust has settled the regulators may be found to have raised issues that go far beyond one major banks' problems. Six days before Continental's Federally-backed rescue package was announced the FDIC had allowed four much smaller banks to fail, bringing the total so far this year to 32.

In Continental's case the Federal regulators revealed, perhaps for the first time, what many had long suspected—namely, that the regulators could not afford to let the eighth largest bank in the U.S. fail without risking the threat of an even more serious crisis of confidence in the whole U.S.—and potentially worldwide—banking and financial system.

Many market observers believe that by guaranteeing all deposits at Continental—including those over $100,000 not normally covered by insurance—the Federal regulators have set an important precedent. They may also have redefined the extent of their own powers and effectively established a tiering system of federal protection for depositors.

As Mr Ferdinand St Germain, the U.S. House Banking Committee chairman, pointedly complained after the Continental rescue package was announced, smaller banks and their depositors have not received the same treatment.

In fact, while Continental's liquidity crisis was by far the most spectacular issue bank regulators have had to face up to recently there are many other challenges—some of a fundamental nature—confronting the half-dozen regulatory agencies responsible for overseeing, policing and guiding the participants in the U.S. banking industry. These challenges fall into three broad areas.

First, the Federal agencies and regulatory bodies are desperately trying to keep pace with rapid changes brought about by deregulation within the industry itself.

These are market-driven changes which frequently attempt to exploit loopholes in jurisdictional responsibility or in the underlying banking, securities and other financial laws of the U.S. As a consequence the regulators are spearheading a push to persuade Congress to redefine the very definitions of players in the industry and geographical and product boundaries of the industry itself.

The perception that the framework needs simplifying and streamlining has led, most importantly, to a major and potentially far-reaching blueprint prepared by a Presidential task-force . . .

Thus while Congress is still considering various Bills which would more clearly define what a bank is, where it can operate and what services it can provide, the regulators, led in this instance by the Federal Reserve Board and the Office of the Comptroller, have demanded urgent action to close loopholes in existing banking legislation which have allowed almost every major bank in the U.S. to propose setting up limited service "non-banks" nationwide.

Without such Congressional action the Comptroller of the Currency, Mr Todd Conover, warned last month that he will have little choice but to approve the applications which in themselves would knock a yawning gap in inter-state banking restrictions.

Secondly, the agencies themselves face criticism from within Congress and outside—either for being overzealous or conversely lax in their duties when problems arise.

In two separate reports issued last year the regulators were severely criticised over their handling of two major U.S. bank failures. In October a Treasury Department report criticised the Comptroller's staff for having neglected to analyse adequately the deteriorating financial condition of Penn Square Bank—the Oklahoma City energy bank which collapsed in 1982 and sent a shock wave through the U.S. banking industry.

Earlier, Mr St Germain, who chaired the House Committee's investigation of the collapse, had described a private written agreement under which the Comptroller's staff reprimanded Penn Square's management as having "all the sting of flogging with a wet noodle." Subsequently the Comptroller's office has set up a new division to monitor more closely potential loan trouble areas like energy.

In a separate and much stronger report the House Operations Committee assailed the FDIC for "extreme regulatory neglect" because it failed to take stiffer action against senior bank officers ahead of the collapse early last year of the Butcher Brothers' banks in Tennessee. The FDIC has strongly rejected the criticism.

Nevertheless, the regulator agencies have been beefing up their operations and imposing new rules on the industry.

For example, in March the FDIC and the Federal Home Loan Board approved new rules which, from October 1, will cut off federal insurance on all but the first $100,000 funnelled to a financial institution by an individual money broker. The ruling, which follows mounting concern about the role of "hot money" in the collapse of several U.S. banking groups, has met with fierce opposition from the brokers themselves. Merril Lynch, the major Wall Street firm, denounced the decision as "a stark case of the regulators out of control."

Of perhaps even greater significance the Federal Reserve Board, responding to concern in Congress and elsewhere about the vulnerability of U.S. banks to a further deterioration in the liquidity position of LDC borrowers, has actively drawn attention to a requirement imposing a minimum of 5 per cent primary capital ratio at the major U.S. international banks.

But in other actions the regulators appear to have been at pains not to force the major international banks to be over-aggressive in writing down LDC loans. For example, at the end of last year they allowed national banks to extend the period before non-performing loans have to be placed on a non-accrual basis from 60 to 90 days.

The third major area of challenge to the regulators is the proposed change in the regulatory framework itself to eliminate duplication and dual responsibilities—and perhaps one of the more embarrassing public disagreements among the regulators over such issues as interstate banking.

The perception that the framework needs simplifying and streamlining has led, most importantly, to a major and potentially far-reaching blue-print prepared by a Presidential task-force led by Vice-President Mr George Bush.

The Bush report, which emerged early this year following months of back-room wrangling among the regulators and was generally seen as a victory for Mr Paul Volcker, the Fed's chairman, who had energetically opposed changes limiting the Fed's supervisory powers, recommends a series of major changes. Among them are the following:

- A new Federal banking agency would be formed to take over the regulation of Federally chartered banks and the position of the Comptroller of the Currency would be eliminated. The new agency would also regulate the parent holding companies of all but the 50 largest banks, which would continue to be regulated by the Fed.
- The new agency would have the power to draw up a list of "permissible activities" for bank holding companies but the Fed would have a limited veto.
- The Fed would take over all the FDIC's current regulatory authority over state chartered banks. The FDIC would, however, be given expanded powers to deny insurance, set insurance premiums based on the riskiness of a bank's activities and examine troubled banks working alongside the bank's primary regulator.

The task-force's proposals, like other moves aimed at bringing the 50-year-old banking and securities industry laws into step with the marketplace, are currently under discussion in Congress. As it is election year, however, some industry observers fear that progress may be slow.

S and Ls adjust to new environment

Mr Charlie Knapp, chairman, Financial Corporation of America: in eight years he has transformed the FCA from a very small Californian savings institution into the biggest savings and loan in the U.S.

THE THRIFT INSTITUTIONS*

	Net income ($bn)	Net worth as a % of assets
1975	1.4	5.80
1976	2.3	5.58
1977	3.2	5.45
1978	3.9	5.51
1979	3.6	5.58
1980	0.8	5.25
1981	(4.6)	4.23
1982	(4.2)	3.69
1983	2.0	4.02

* Savings and loans associations insured by the Federal Savings and Loan Insurance Corporation (FSLIC)

THE TOP TEN SAVINGS AND LOANS

	Assets ($bn)
American S and L	21.5
Home S and L	19.7
Great Western	17.1
California Fed.	14.1
Glendale Fed.	9.7
First Nationwide	8.4
World S and L	8.2
First Fed. Michigan	8.0
Empire of America	7.0
City Federal	6.7

Source: U.S. league of savings institutions.

Thrift industry

WILLIAM HALL

THE U.S. savings and loan industry is gradually emerging from its financial crisis of 1981-1982 but many institutions are still not making money and the latest rise in interest rates has dealt a heavy blow to their recovery prospects.

America's 3,500 Savings and Loans (S and Ls), which are primarily institutions which collect savings deposits and use them to finance the U.S. housing industry, are still struggling to find a long-term role in the newly deregulated marketplace which they operate and U.S. banking regulators are concerned that many of the players will not be able to survive.

Some of the S and Ls have embraced the newly deregulated operating environment enthusiastically. Following the passing of the Depositary Institutions Act in October 1982 they can now operate in much the same way as commercial banks in return for foregoing their interest rate privileges which assured them of a captive depositors base.

Legendary

Financial Corporation of America (FCA), headed by the 49-year-old former investment banker Charlie Knapp, has grown from a very small Californian savings institution with assets of under $100m into the biggest institution of its kind, with assets of $27.8bn in just eight years. In terms of deposit taking institutions it now ranks ahead of such well known banks as Wells Fargo and would rank among the top dozen banks in the U.S.

Knapp's aggressive pursuit of deposits is legendary in the industry and the company sees the Wall Street investment houses such as Salomon Brothers and First Boston, which package mortgage securities, as one of its biggest sources of competition rather than the local Californian Savings and Loans.

However, FCA's business strategy is not typical of the industry. Other Savings and Loans are less confident that they have found the right niche in the marketplace. Many see themselves as remaining primarily specialised institutions for providing housing finance and are still trying to grapple with the age-old problem of providing fixed rate mortgages with short-term variable rate money. Despite the arsenal of new funding instruments which have been spawned by the securities industry the S and Ls are still sensitive to unexpected upward jumps in U.S. interest rates.

Arduous road

The Federal Home Loan Bank (FHLB), which regulates the industry, said recently that the "state of the industry remains very fragile and the thrifts face a long and arduous road to recovery."

Last year the thrift industry made its first profit since 1980. After losses of $8.6bn in the previous two years net income of the Savings and Loans insured by the Federal Savings and Loan Insurance Corporation totalled $2bn in 1983. This is still only half the amount earned in 1978 and the industry's return on average assets of 0.27 per cent in 1983 is two-thirds below the level of the late 1970s.

The thrift industry's capital position remains weak. The ratio of net worth to total assets recovered to 4.02 per cent from its historically low 3.69 per cent in 1982 but despite the industry's aggressive efforts to boost its capital base its ratios are still one-third below where they were in the mid-1970s and regulators are concerned about the slim capital cushion.

The FHLB notes that while the aggregate earnings of the industry in 1983 were in sharp contrast to the substantial losses in 1981 and 1982, 35 per cent of the institutions in the industry were still operating in the red during the second half of 1983. The FHLB also says that despite the recovery net operating income "remains extremely low by historical standards."

The regulators' concern about the thrift industry has been increased following growing evidence that ailing thrifts have been allowed to grow rapidly by tapping money brokers for funds. The use of "brokered funds" has been found in many of the Savings and Loans which have had to be bailed out by the regulators in recent months and there are now plans to restrict their use severely.

Even so, the regulators are finding the cost of rescuing some of the thrifts is straining their resources. Quite small Savings and Loans have generated big losses which the regulators are having to shoulder. The collapse of the infamous Empire Savings and Loans of Mesquite, Texas, which had grown by a mindboggling 1,685 per cent in less than two years is expected to cost the Federal Savings and Loan Insurance Agency $164m in its duty to insure customers deposits in the institution.

In 1982 264 Savings and Loans failed and although the number of failures fell by 89 last year the sums involved rose substantially.

Obvious case

To help them meet the problem the regulators are having to bend the rules and this in turn is leading to a breakdown of the barriers which have long prevented commercial banks from operating in more than one state. Citibank has been the most obvious case in point. It acquired a failing thrift in California and has followed this up with acquisitions of similar institutions in Florida and Illinois.

While the Federal regulators in the industry have been taking steps to tighten their controls, their task has been made more difficult by a relaxation of laws at the state level, particularly in California, which has led many Savings and Loans to swop their Federal charters for state charters to take advantage of the easier rules on what they can and cannot do.

The scale of lending to sovereign borrowers, particularly in Latin America, is a major problem for the banks

Nursing the debtor nations

World loans

WILLIAM HALL

Left: Mr Walter Wriston, chairman of Citicorp, who believes the Cassandras will be proved wrong. Right: Mr Tony Solomon, president of the New York Fed, who has played a key role in the debt crisis

WHILE SOME of the Texas and Californian banks continue to be dogged by domestic loan loss problems, it is the international debt crisis which continues to pose the biggest challenge to America's major banks.

Nearly two years after the international debt crisis broke, U.S. bank lending to the world's heavily indebted countries has stabilised—which is a polite way of saying new lending has virtually stopped. The regional banks have pulled in their horns and left the biggest banks to bear the burden of meeting the bulk of the increase in "involuntary lending" that is required to enable the countries to maintain their interest payments.

Although U.S. bank exposure to the heavily indebted less developed countries (LDCs) is not increasing, the scale of the existing involvement underlines the very real problems some U.S. banks might face if there was a prolonged interruption in the servicing of their loans.

Bank of America, Citibank, Morgan Guaranty, Chemical, Chase Manhattan, Manufacturers Hanover Trust, Continental Illinois, Bankers Trust, plus First National Bank of Chicago, the nine U.S. money centre banks together had at the end of June 1983 $12.4bn out to Mexico, $13.3bn out to Brazil, $7.6bn out to Venezuela and $5.2bn out to Argentina. These loans were the equivalent of 131 per cent of their combined capital, and accounted for roughly two thirds of the entire U.S. bank exposure to these countries.

Nervous

U.S. bankers are exposed to other "problem borrowers" around the world but Latin America has been the traditional sphere of influence overseas for U.S. banks and bankers are nervously watching the announcements and rumours emanating from the capitals of Brazil, Mexico, Venezuela and Argentina.

Mr Bill Rhodes, senior vice president of Citibank and the man who has fronted for the commercial banks in the toughest negotiations with the debtor countries, says that U.S. banks are now involved in the third wave of the Latin American debt crisis.

The first wave was Mexico, beginning in August 1982, followed by Brazil last summer. Now Argentina is on the "front burner." Publicly, at least, U.S. bankers say that their efforts to help Mexico and Brazil have been a success. Principal repayments have been delayed for several years, interest is once again flowing and the countries have taken severe austerity measures to put their economies in order. The more optimistic U.S. bankers believe that it will not be too long before some Mexican borrowers are able to return to the credit markets for funds on their own behalf and without the crisis atmosphere which has surrounded their recent refinancing activities.

By contrast, Venezuela and Argentina are giving U.S. banks some "sleepless nights." Helped by ample oil revenues, the former is in a much healthier financial position than some of its neighbours, yet is showing little inclination to begin repaying its overdue loans. Earlier this year U.S. bank regulators took the unusual step of "classifying" some U.S. bank loans to Venezuela as "sub-standard" because of the country's failure to meet its obligations on time. While this has little immediate impact on U.S. bank's profits it was a clear warning signal from the U.S. bank regulators that all is not well.

U.S. banks face serious problems collecting their money in Brazil and Mexico but at least these countries are trying to comply with economic adjustment programmes imposed by the International Monetary Fund. Venezuela, by contrast, appears to have given up the attempt, in the view of some U.S. bankers.

However, it is Argentina which is really worrying U.S. bankers currently. At the end of March U.S. banks were saved from having to put much of their Argentinian debt on a non-performing basis by a last-minute $500m loan which was used to make the interest payment.

Argentina itself only put up $100m. Mexico, Brazil, Venezuela and Colombia put up another $300m and the 11 international banks on the Argentinian Working Committee put up the remaining $100m. This unusual last-minute intervention prevented Argentina from becoming the first major Latin American borrower in recent times to shift into non-accrual status on its sovereign debt.

U.S. banks are particularly sensitive to delays in quarterly interest payments since, unlike European banks, they have to publish quarterly statements and are obliged to publicise any material change in non-performing loans which could result from interest delays. Given a nervous stock market, the disclosure that Argentina failed to pay its interest on time could further damage U.S. bank shares, which in turn would hinder their ability to access the capital markets for fresh capital.

Confidence

Manufacturers Hanover Trust, the U.S. bank most exposed to Argentina, has said that its 1984 first quarter net income of $84m would have been reduced by $19.3m if the end-March interest payment had not been made by Argentina. The bank, along with the other big U.S. banks, stresses that it did not bring pressure on the U.S. Government to come up with a temporary solution to the Argentinian interest payment but bankers admit privately that they were very relieved that the payment was made and are nervously waiting to see what happens at the end of June, when the banks are next scheduled to publish their quarterly figures.

Leading U.S. bankers continue to put a brave face on the international debt crisis. Citicorp's Walter Wriston, the leading figure in the U.S. banking community, is a firm believer that the Cassandras who have been forecasting the imminent collapse of the international banks will be proved wrong.

"If the world economy grows at a real rate of about 3 per cent per annum for the next two to three years, the current account deficits of the LDCS will return to normal and debt service ratios will drop sharply. Lest this belief be thought too wild a dream, history records that, from the end of World War II till the beginning of our global recession from which we are emerging, the real growth rate of the world economy averaged about 4 per cent a year," wrote Mr Wriston recently.

Important

Not all U.S. bankers share Mr Wriston's confidence. Some have argued that the approach advocated by banks like Citibank amounts to "putting band-aids onto a terminal cancer patient." They argue that the LDC loans from the banks should be stretched out over as long as 30 years.

Mr Tony Solomon, president of the New York Fed, told Congress recently that while economic growth of 3½ per cent a year in the industrialised world would help the debtor nations it was "not enough to resolve their problems." Last month he hosted a three day meeting of central bank officials in New York who examined what concrete and practicable steps could be taken to re-establish LDC finances on a more sustainable basis.

European banks have been pushing an idea that instead of lending LDCs new money so that they can repay their interest, banks should be prepared to "capitalise" or roll up the interest until the end of the loan and allow countries temporarily to miss interest payments which would ease the short-term squeeze on their cash flow.

Along with many other U.S. bankers, Mr Bill Rhodes of Citibank is not impressed with the idea since he believes that it delays the day of reckoning and removes some of the discipline involved in the recent financial rescheduling. He cites the case of Nicaragua, which ran into serious financial difficulties as a result of the civil war. The banks agreed to capitalise the interest but Nicaragua did not adjust because it had no incentive to adjust.

Another similar idea circulating among U.S. bankers is some form of "cap" on the interest rates they charge to LDC borrowers. Tony Solomon and Martin Feldstein, chairman of the Council of Economic Advisers, raised the idea recently but there are widely differing views among U.S. bankers on the practicality of such an initiative.

Even so, every international banker in the U.S. is conscious that the recent rise in U.S. interest rates is pushing the most heavily indebted countries closer to the point where they might consider repudiating their debts to U.S. banks—a possibility which sends a chill through the U.S. banking fraternity.

Late last month the presidents of Brazil, Mexico, Colombia and Argentina issued a joint warning that higher interest rates were pushing their countries towards insolvency. They called for lower interest rates, longer grace periods for repayments, lower bank fees and greater allowances for exports to industrialised countries.

Against this sort of background U.S. banks are soft pedalling their international expansion plans. For the last two decades they have been forced to look abroad for much of their growth. This was partly because onerous restrictions such as the prohibition on inter-state banking limited their ability to develop their domestic business and also because the LDCS had an insatiable appetite for loans. Bankers seeking a route to the top of their institutions often found that the international operations provided the fastest promotion but that has changed significantly since Mexico's financial difficulties in the autumn of 1982 signalled the start of the international debt crisis.

One tell-tale sign is that there are *no longer direct air flights* between New York and Caracas in Venezuela, which used to be one of the busiest congregating places for U.S. bankers. Bankers wanting to get there must travel via Miami. The downturn in the international banking business means that loan officers are spending much of their time "working-out" problem loans to the LDCS. Many of their colleagues have been redeployed into the domestic corporate loan market. Staff in foreign offices are being slimmed down and some cases offices are being closed.

Pressure

Even if the problems of the LDCs disappear as quickly as banks like Citibank suggest, most U.S. bankers are resigned to the fact that their international business is unlikely ever again to be as important a segment of their business as it was at the start of the 1980s, when it accounted for over 50 per cent of the earnings of the money centre banks.

Inside the U.S. many of the barriers which forced U.S. banks to look abroad for their growth are being taken down, with the result that there are plenty of "safer" domestic growth opportunities for U.S. bank lending.

The risk attached to LDC lending has left its mark on many U.S. banks. They do not mind sitting out a prolonged recession in their domestic marketplace, where they can take a comforting look at their underlying security every now and then, but in lending to Brazil, Argentina or Mexico, a U.S. bank is just one of hundreds of other foreign banks which share widely differing views as to how they should go about collecting the money if times get tough.

Exposure of nine U.S. Banks to LDCs

		Total foreign claims ($bn)	Claims on non-Opec LDCs ($bn)	As per cent of assets	capital
1977	Dec	132.7	30.0	5.1	162
1978	June	135.9	31.0	6.0	164
	Dec	147.3	32.4	7.9	176
1979	June	151.8	35.0	7.8	186
	Dec	163.2	39.9	8.2	183
1980	June	176.7	41.9	8.2	182
	Dec	186.1	47.9	9.0	190
1981	June	196.0	51.6	9.2	206
	Dec	205.0	57.6	10.2	220
1982	June	209.5	60.3	10.6	222
	Dec	205.2	64.2	10.9	221
1983	June	207.4	64.4	11.1	213

Source: Country Exposure Report, Federal Financial Institutions Examination Council

Loan Exposure of top five U.S. banks at end of 1983 ($m)

	Stockholders equity	Loans to Brazil	Mexico	Argentina
Citicorp	5,771	4,600	3,000	n.a.
BankAmerica	5,136	2,484	2,741	n.a.
Chase Manhattan	3,051	2,560	1,553	800
Manufac. Hanover Tst	2,671	2,130	1,915	1,321
J. P. Morgan	3,069	1,785	1,174	741

Source: Annual reports

Change is sweeping through the financial services industry: new institutions are emerging and a range of new products is on offer

Super league starts to stretch away

Wall Street Houses

TERRY DODSWORTH

FEW EVENTS could have encapsulated the development of the U.S. securities industry over the last few years quite as comprehensively as the sudden marriage of Shearson/American Express and Lehman Brothers Kuhn Loeb in April.

The decision to merge in what was effectively a takeover of Lehman by Shearson, highlighted two strands in current Wall Street thinking. The first is that size now counts of itself in a way thet it never has before. The second is that the old distinctions between the traditional investment banks like Lehman and the conventional hroking houses such as Shearson no longer matter very much.

The development of a super leagua of Wall Street bouses goes back to the mid-1970s and the abolition of fixed brokers' commissions. Until then commission income had been the mainstay of most New York Stock Exchange member firms, accounting for around 50 per cent of gross revenues in 1975. Tha rule change very rapidly and very decisively made this steady source of incoma much less dependable. It opened up the market for opportunistic forays by firms that were ready to move in aggressively and offer clients — especially the big institutional customers — cut rate services.

One result was that many smaller firms merged or went out of business while the bigger groups grew larger still. At the same time the stabilisation in commission revenues made the other areas of business more important. Firms have intensified their efforts in the two broad areas of securities trading and investment banking, activities which have both expanded rapidly over the last nine years.

The companies that hava emerged looking tha strongest from this pell-mell bout of change are those that have managed to look into one of these two growth sectors—and the strongest of all are those that have a foothold in both.

Blue chip

Some blue-chip investment banks, notably Goldman Sachs and First Boston, have made the transition smoothly by building up their institutional trading departments and their capital base. From the other direction trading bouses such as Salomon and Merrill Lynch have expanded their banking activities.

In the midst of this reshuffle in the industry Shearson emerged as one of the fastest-growing and most aggressive retail brokers, dealing directly with the general public. Through a series of mergers in the 1970s it built up its position to push into institutional business and own account trading—moves that were reinforced by tha firm's acquisition by American Express, which was able to pump up the capital hase of the broking company.

The one important element which has been missing from the Shearson mix was a heavyweight investment banking business. Lehman, one of the oldest established names on Wall Street, with roots that go back to before the Civil War, provides just this, along with a list of contacts and clients on which the classy Wall Street financiers hava historically based their pre-eminence.

While the logic of Shearson's development into an all-embracing all-service firm is clear enough, however, the merger begs the question of why Lehman should bave wanted to accept it. The firm had recovered from a difficult period in tha early 1970s to re-establish itself among at least the minor aristocracy of Wall Street. During the boom in trading over the past two years it had racked up record profits and substantially expanded its capital base. In addition, it had managed to develop a powerful dealing business, particularly in the fixed-interest sector.

Pre-eminence

Tha answer to this question is twofold and both points illustrate the pressures that are now being exerted on the old charmed circle of th exclusiva Wall Street partnerships. First, Lehman was suffering from a serious family row about the direction of the firm which had pitted partner against partner in a divisive scrap.

Secondly, Lehman had evidently begun to worry about the adequacy of its capital base. During 1983 it attracted substantial new loan capital but this still left it well down the Wall Street league table at number 14 in the list of the most beavily capitalised companies.

Shearson, by contrast, has demonstrated how rapidly and aggressively a well capitalised company can move in the securities industry. With its buge cash-rich partner in American Express, it has been able to expand its capital base more quickly than many of its older rivals, thus increasing its capacity to move into new markets, particularly trading. By the end of last year, before the deal wth Lehman, its capital had topped the $1bn mark, making it the third largest Wall Street firm after Merrill Lynch and Salomon. In the wake of tha merger it may now be moving into the number two slot.

The Shearson/Lehman saga has now established itself as the paradigm case for the currently fashionable view in the industry that the battle for survival will be increasingly won by the big battalions. In one sense this is quite obviously true. Inasmuch as the key to growth over the past nine years has been in the trading rooms, it is the big companies that have achieved the most success, since they have been able to assemble the necessary funds to take dealing positions.

The essence of the dealing-based firms lies in their capacity and willingness to take risks.

The risk enters in because in order to work with these sort of clients they bave to be willing to take positions on their own accounts. They have to maintain inventory to facilitate order flow and they have to trada in very large chunks of stock — the so-called block trading.

The trading-based firms also have another strength. In winning underwriting business they now have a natural advantage over other Wall Street firms because they can use their own dealing network as a distribution channel.

The relationship between capital resources, dealing ability and underwriting capacity is illustrated in the Wall Street league tables. The firms that have concentrated most on trading are Salomon, Merrill Lynch and Goldman Sachs. Last year they occupied tha top three underwriting positions in both dollar volume and tha number of issues, and all three came in the list of top five most beavily capitalised firms. Morgan Stanley, meanwhile, which lies thirteenth in terms of capital, slipped to number five in underwriting, the first time in five years that it had not been first or second in the ratings.

Among the top troika, Merrill Lynch is the odd man out, since it has gone the way of becoming an all-service firm, maintaining a very big private client retail operation to go with the institutional business. Merrill has recently been showing some of the dangers of this approach in tha heavy staff costs that have weighed down its profits. But the strategy of building from a retail base and tacking on to that virtually every conceivable type of brokerage activity is by no means unfashionable. The top ten largest firms include Shearson, E. F. Hutton, Prudential-Bache, Paine Webber and Dean Witter Reynolds in this category.

Mr Perrin Long, a specialist on Wall Street firms at Michael Lipper, believes, however, that tha pull of gravity towards the larger organisations is now so strong that a hard core of 6 to 8 giant financial groups will emerge over the next few years. If this is so, the question is what will happen to the medium-sized organisations.

One answer is more mergers. The Shearson/Lehman marriage was followed by a wave of speculation about several companies, notably Morgan Stanley and Kidder Peabody. Another is increasing specialisation. This trend has already been evident over the last few years, with the emergence of the discount brokers and leveraged buyout experts, as well as strong regional brokers such as the St Louis-based A. G. Edwards, which has concentrated its resources on an efficient retail operation.

Downturn in profits

IN 1983 the U.S. securities industry had a bonanza. Despite a drop in fourth quarter income New York Stock Exchange member firms topped out the year with combined net profits of $1.95bn, a 25.4 per cent increase on the $1.55bn earned in 1982—itself a record. Out of 417 firms reporting in the year 357 were in profit and 60 in the red.

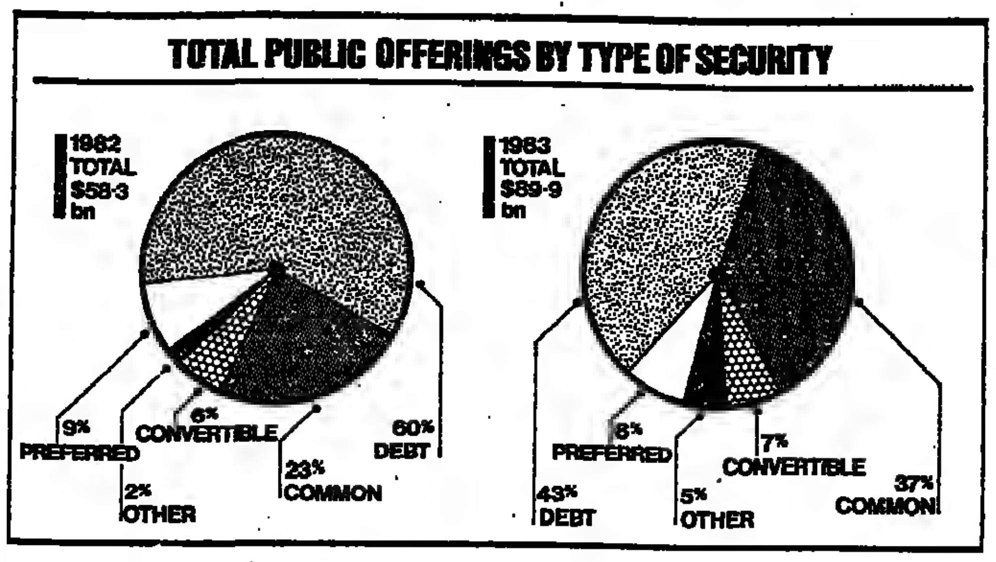
These buoyant results reflected the vigour of the bull market which began to run with unusual force in mid-1982. Virtually every factor played into the hands of the broking community, driving second quarter net earnings to an extraordinary peak of $753m.

Share trading volume increased by leaps and bounds, jumping to an average of 85.3m deals a day compared with 65m in 1982. New issues roared ahead, trading profits benefited from the rise in stock prices and private shareholders came back to the market in force. By the middle of last year the number of U.S. individuals owning shares had leapt to 42.4m from 32.2m in 1981.

In the stagnant first quarter [illegible] of this year, however, the Wall Street firms have been reporting a virtually uniform drop in profits as the boom and bust cycle of the investment world takes its downward toll. The symptoms are familiar. During an expansion phase the securities houses build up staff rapidly to cope with demand; when demand falls off, there is a period during which top-heavy overheads undermine earnings before a freeze on recruitment restores costs to the right level.

While trading volume fell away towards the end of the first quarter, it rose to a record average of over 100m deals a day in January—partly as a result of the splitting up of the giant AT & T telephone group. However, commission income has suffered under pressure from the increase in block trading — deals with institutions involving 10,000 shares or over, on which the commissions are minimal. At the same time the big brokers have been struggling to make any money at all out of their trading activities, particularly in the fixed income sector, where they have consistently underestimated the rise in interest rates.

T. D.



Finance-raising rush loses impetus

Equity markets

TERRY BYLAND

THE U.S. equity markets enjoyed spectacular success last year as an arena for raising equity finance but are now finding themselves operating in more difficult conditions. Corporate securities underwritten in the first quarter of this year are down by more than a third on the comparable quarter of 1983. The market for new issues, or Initial Public Offerings (IPOs), is sluggish and lagging far behind the peak offerings total of 1983.

Comparisons with last year can be a little cruel for 1983 was a year marked for prominence in the annals of Wall Street. During the first half stock market confidence was bounding ahead as corporate results began to show the first fruits of the recovery in the U.S. economy; so were stock prices, which had fallen to exceptionally low levels in the preceding 12 months. The upsurge in stock prices from low levels offered outstanding opportunities for existing corporations to fund themselves through stock issues and also for new companies to launch themselves on tha stock market.

In the first quarter of this year new corporete common stock issues underwritten were down to $2.3bn, compared with $9.6bn a year ago—hardly surprising in view of the lacklustre performance of the stock market since the turn of the year and needing to be seen in context.

This year's first quarter compares favourably with the opening period of 1982, bowever, which recorded $1.9bn in new equity underwriting. Moreover, shelf registrations for equity remain at a healthy level, indicating that a return to lower interest rates, together with a more confident stock market, could bring a radical improvement in the new equity market.

Last year's total of 875 new IPOs, worth about $12.59bn at issue prices, was not merely a record. It surpassed the aggregata IPO total for the previous 12 years. The opening quarter of this year has brought a total of only about $1.2bn from 96 new IPOS, according to Securities Data, which tracks the new issue industry.

The 1983 total benefited from several special features in the general increase in corporate activity, while 1984 has suffered from the absence of them. About 20 per cent of last year's new issua total was accounted for by a rush to obtain public quotation by the Savings and Loan institutions (S and Ls).

This sector, which faced financial ruin after a decade of inflation had wrought havoc with its portfolios of fixed interest mortgages, took the opportunity to abandon the mutual, or fundholdar-owned, structure enjoyed by most of them and to follow the lead of the minority of S and Ls which were already publicly quoted.

But in retrospect the anthusiasm which greeted the new S and Ls proved overdone. There were underlying doubts about how to value atocks in companies which had formerly been trading under mutual ownership. The implications of the new securitisation of mortgages, which converted existing mortgage loans into tradable assets were, and still are, difficult to assess.

For these reasons, as well as the general shakeout on Wall Street, the S and L new issues make a disappointing showing in today's stock market.

Pride of place in last year's new issue market went to the new high technology industries which seemed to be powering not only the new issue market hut even the renaissance of U.S. industry itself.

In the context of an ebullient recovery of confidence on Wall Street and throughout corporate America, the reception and initial performance of some high technology new issues was breathtaking. "You threw anything on the table and people bought and grabbed at it," commented Mr Robert Cooney, a managing director of First Boston.

Unfortunately, the high technology issues were among the earliest casualties of the U.S. stock markets when the latter began to falter in the second half of the year and new issues often performed disappointingly. By the end of 1983 any number of Wall Street fund managers were paying a price for having stayed in this sector of the market too long.

This year made a poor start with the slide into bankruptcy in February of Victor Technologies, which marketed the Sirius computer in Europe, and bad survived in the stock market for only one year after issue at $22 a share. Tha attractions of the high tech issues bave been reduced by difficulties in the small computer industry and the greater commitment of IBM and the other giants of the business.

Strength

The NASDAQ over-the-counter markets, which provided the stock market entry point for many of the 1983 high flyers, have traded more sluggishly and investors are more wary of committing themselves to stocks with a narrow trading base.

But all this can be seen as the true function of a new issua market—to act as a screening system for controlling tha flow of new investment cash into the market and improving the quality of new issues allowed inside.

The major institutional investors, always on the lookout for the next Xerox or IBM, are not unhappy to see the new issue market in a calmer frame of mind. There were complaints last year that it was often difficult to obtain suitable stakes in some new issues and the rush to market brought in too much chaff among the grain.

The continued strength of shelf registrations—the top 14 lead managers participated in 102 sbelf registrations in the first four months of this year—indicates that there is a ready supply of better quality equity fuoding to be brought forward when conditions are thought ripe.

The losses taken on last year's IPOs from the high technology industry may have to be consigned to bistory. Everv boom has its casualties and the lessons are hard-learned.

Business borrowers steer clear of the equity markets

Corporate debt

PAUL TAYLOR

CORPORATE AMERICA is on a borrowing binge to finance inventories, takeovers, leveraged-buyouts, capital spending and trade.

But in sharp contrast to the period at the atart of the current economic recovery in late 1982 and tha first quarter of 1983, most of the borrowing is short term and—reflecting the current malaise of the U.S. debt and equity markets—balance sheet restructuring bas been all but abandoned, at least temporarily.

Last year the corporate sector raised an estimated $89.9bn through the U.S. equity and capital markets compared with $58.3bn in 1982. While corporate bond volumes increased by about 10 per cent to around $38.5bn the dramatic jump actually came in the funds raised through common stock equity issues which more than doubled to around $33.26bn.

But even the bond figures actually mask some important changes in the pattern of borrowing. The average monthly bond volume actually declined by almost 60 per cent in the last two-thirds of the year and it was only in the final months of 1983 that short term business borrowing began to pick up.

Despite thia, at the end of last year most senior Wall Street economists were still predicting an increase in both corporate debt and equity offerings in 1984.

Now half way through the year those predictions—like so many others—are beginning to look a little odd. One senior Wall Street economist whose firm had been predicting a substantial increase in bond and stock issuance this year said coyly last week: "Now it looks like bond issuance will be below expectations and equity issuance will be very much lower than we had predicted."

There are several factors which have pushed business borrowers away from the credit and equity markets and back towards short term borrowing. These include the impact of interest rate deregulation in the U.S. which bas fostered further intense competition among lenders for corporate business.

But undoubtedly the primary factor has been the sorry performance of the U.S. equity and credit markets—especially since mid January—which has pushed borrowing costs in the credit markets sharply higher and made equity issuance considerably less attractive.

The corporate sector has responded to these problems in a number of distinct ways. The most obvious perhaps has been to steer clear of the equity markets except where new issuance is absolutely necessary—as in the case of banks which have been forced to improve their capital ratios.

Level pegging

According to first Boston, the Wall Street investment bank, new equity issues bad oulled in just $3.99bn by mid May thia year compared to $17.15bn in the same period last year.

In the corporate markets bond issuance in volume terms continued, until last month, to level peg that of last year but even this disguised important changes in the structure of new issuance. In particular a marked shift towards shorter maturities and, in some instances, towarda floating rate rather than fixed coupon issues.

Thus whila bond issuance averaged about $3.1bn a month in the first four months of the year compared to $3.2bn in the same period last year medium term issues accounted for about $1.9bn of the total compared to $1.4bn in 1983. For 1983 as a whole medium-maturity obligations accounted for 53 per cent of total corporate bond issuance in the U.S.

In April the shift toward medium term issues became even more stark with about $2.3bn of the $3.6bn in new paper issues counting as medium term debt.

Tha impact of lower long term bond prices and higber yielda—the yield on long term AAA industrials has increased from about 12.50 per cent to about 14.63 per cent between mid January and late last month—is also seen in rule 415 shelf registrations which currently total about $37.4bn.

With high funding costs and the avalanche of new government paper to fund the estimated $178bn federal budget deficit this year compounding the problem, corporate treasurers have been in a hurry to tap the shelf and bring issues to the U.S. market hoping instead that they will have the opportunity instead to dive through an "interest rate window" should one occur—or to tap new sources of finance including the international credit markets. Last year foreign bond issuance by U.S. corporations equalled about 20 per cent of total U.S. corporate bond financing in the U.S. and—despite the strength of the dollar—the proportion is expected to be higher this year.

This reluctance to use the U.S. long term credit markets has had a dramatic impact on new issue volume, particularly in recent weeks. For example the total corporate calendar for May showed just $500m of new corporate debt securities due to be offered. "The new issue market has all but dried up," said one market observer recently.

In sharp contrast however short term business borrowing, having increased only a modest 1.1bn in 1983, is soaring. So far this year short term borrowing by business firms and non bank financial corporations has increased about $37bn compared to a $400m decline in the same period last year. In the first four months of the year net new commercial paper issuance alone jumped to $17.4bn compared to $3.7bn in the same period last year and almost equalled the $18.7bn total for tbe whole of 1983.

The boom in short term borrowing has also produced a bonanza for tha banks although it has also kept upward pressure on short term rates and fuelling mounting coocern about the quality of soma of the business the banks are putting on.

In the first quarter some estimates suggest that bank loans to business increased at an annual rate of over 15 per cent to a total of over $425.2bn and the weekly banking figures supplied by the Federal Reserve Board which show business loans increasing by round $1.4bn a week recently suggest the pace may actually be accelerating.

The burst of major acquisitions, including those in the oil industry, coupled with a spate of multi-billion dollar leveraged buyouts has helped fuel short term demand. According to Salomon Brothers, the Wall Street investment bank, the volume of cash acquisitions in the first quarter probably exceeded $20bn—more than twice the previous record for any one quarter.

But Wall Street economists reject suggestions that tha acquisition trail is the primary factor behind the growth in short term U.S. business credit demand. Instead they suggest that inventory accumulation and capital investment, together outstripping corporate cash flow, explain much of the surge.

"With inventory outlays rising sharply, equipment spending still robust and plant outlays rising as well, business spending is now running well abead of business cash flow, says Manufacturers Hanover Bank in a recent report. "And with both the bond and equity markets in disarray a good chunk of the resulting corporate finance needs is being met at the commercial banks and in the short term debt markets."

Last year, economists point out, modest growth in investment and inventories was largely met from internal sources and in particular by sharply improved profits. In fact inventory investment in the second quarter last year, the low point for business borrowing, actually felt at an annual rate of $1.45bn but surged in the first quarter this year to a $62.2bn annual rate—one of tha key factors that boosted first quarter GNP.

Investment

Similarly business investment in such things as new equipment, machinery and buildings fell in 1982, increased by 12.6 per cent last year and is continuing to grow. According to Data Resources, an independent consulting firm, business investment this year will grow by about 15 per cent to around $400bn.

Whether corporate short term borrowing will continue apace through the second half will depend in part on the performance of the economy in general, the relative performance of the long term debt and equity markets and perhaps most crucially on the interest rate environment.

But with many economists predicting only a slight slowdown in the hitherto torrid pace of economic growth short term corporate borrowing could continue to expand. Some economists believe the only real brake would be a further sharp upward movement in short-term rates and—perhaps less likely—a flattening of the yield curve which would make long-term borrowing once again less costly and more attractive.

"Corporate treasurers would like to continue the balance sheet restructuring which began in 1982 with the conversion of some short-term debt to long," says one Wall Street analyst. "But for the moment such moves have had to be placed on the back-burner." According to Salomon Brothers the ratio of long to short-term debt increased marginally to 1.08 per cent at the end of last year from 1.03 per cent a year earlier—a modest improvement when set against the 1.2 per cent reached at the end of 1980 and the 2.5 ratio achieved in the early 1960s.

"The return of corporations as massive issuers of long bonds is unlikely to occur soon," Dr Henry Kaufman, Salomon Brothers chief economist, said earlier this year. "The continuation of a positively sloped yield curve will by itself encourage borrowers to save on financing costs by borrowing short. Many corporations have survived credit crunches and believe that they now know how to cope with a larger proportion of short-term debt."

GROSS ISSUANCE OF PUBLICLY OFFERED CORPORATE BONDS IN 1983

(dollars in millions)

	Maturity in years		Type of issue				Credit rating		
	10 or less	Over 10	(1)	(2)	(3)	(4)	A or higher	BAA or lower	Total
Utilities	2.7	7.5	8.3	1.1	0.1	0.8	5.4	4.8	10.2
Industrials	1.9	5.4	4.5	0.8	0.1	2.0	3.7	3.6	7.3
Other non-financial	1.9	5.1	2.9	1.3	0.3	2.5	1.8	5.1	6.9
Banks	5.6	1.1	2.4	0.0	4.2	0.1	6.4	0.3	6.7
Other financial	4.9	2.5	5.1	0.5	1.2	0.6	4.2	3.2	7.3
Total	17.0	21.6	23.1	3.6	5.8	6.0	21.4	17.1	38.5

(1) Conventionally priced straight bonds. (2) Zero-coupon and original issue discount bonds. (3) Adjustable-rate issues, including extendables. (4) Convertibles.

Source: Salomon Brothers Inc.

Interest rates under growing pressure

Short-term money market

ANDREW ARENDS

AFTER A FAIRLY quiet year in 1983, the short-term money markets have become a hive of activity, with strong private sector demand for credit, combining with the voracious appetite of the U.S. government, to put short-term interest rates under growing pressure.

The money markets have been subject to sweeping changes in recent times, and are affected significantly by changes in risk perception as well as by longer-term structural changes.

Nowhere was this former factor more evident than last month when the liquidity problems at Continental Illinois sent the market reeling, virtually drying up the Bank Certificate of Deposit (CD) market, and sending the yield spreads between bank paper and Treasury bills soaring.

But the most important influence shaping the markets has been the impact of bank deregulation which dramatically increased the pool of funds that the banking system could compete for.

Last year was the first year in operation of money market deposit accounts—new demand deposit accounts, available to the ordinary person, offering close to money market interest rates. What happened in 1983 was that the banks were flooded with this new (and expensive) retail money while, on the other band, they faced only moderate loan demand.

In the initial stages of the economic recovery the U.S. corporate sector was providing enough self-generated resources to avoid having to borrow on tba money markets. Commercial paper outstanding (short-term business paper) barely rosa at all during the first three quarters of 1983.

This bad a big impact on the CD market. According to Wall Street analyst Len Santow: "For most of 1983 there was little reason for the commercial banks to go out and get institutional CD money." Indeed at one point in 1983, CD spreads over Treasury Bills fell to just 25 basis points. Part of the reason was a technical shortage of T-Bills at the time, but this also reflected the underlying weakness in CD rates.

One of the key rates in the market is the Federal Funds rate, the overnight interbank rate. The entire rate structure is firmly anchored on Fed Funds, and over the past year and a half (with the exception of the Continental Illinois crisis when the Federal Reserve Board flooded the system with liquidity) the Fed Funds rate has acted in a more or less consistent manner, leaving the movement of the other short-term instruments in the hands of outside factors.

So far in 1984, the level of consumer spending and loan demand has shown no sign of abating. Business loans by banks jumped 20 per cent between February and April, and commercial paper outstanding has increased by nearly 30 per cent on an annualised basis in the first three months of the year.

This bas seen virtually all the banks liquidating their stocks of government securities (built up in 1983), and going aggressively into the market to raise funds.

But in the new deregulated environment this has bad some important consequences. Despite the hunger of the banks for funds, the CD market bas only partially rebounded from tha lows of 1983. Large ($100,000 or more) domestic CDs written by tha commercial banks bave in fact fallen ovar the past year. It bas mainly been those banks like Morgan Guaranty which have small or non-existent retail operatiins, that have been writing large CDs.

'Tiering'

Retail money has poured into the money markets. According to Federal Reserve figures, by February 1983, three months after they bad been introduced, a total of $279.6bn had been deposited in MMDAs. Conversely, figures for "large time deposits" outstanding (which include CDs) showed a sharp drop over the same period.

In the money markets there is, of course, a "tiering" of the various instruments according to the degree of risk.

Domestic bank CDs are usually broken down into three major groups: the top nine or ten money centre banks (MMCs); large regional U.S. banks; and foreign banks. In recent months spreads between these groups have fluctuated dramatically. In March of this year the market perception that Japanese banks were far less exposed in Argentina saw the differential between Japanese "Yankee CDs," and MMC bank CDs narrow considerably, although the recent flood of paper from the Japanese banks has seen the spread widen.

Within a grouping, an informal tiering by market traders also exists. When doubts about the bank began to surface last month, Continental Illinois was forced to pay at least 50-60 basis points more for its money than any of the other big banks.

Tiering is inevitable whenever questions of quality occur. One way to see this quality differential is to look at the yield spread between "safe" Treasury-bills (backed by the U.S. Government) and Commercial Bank CDs. Whenever there is a "flight to quality" this spread widens.

During the first week in April, the spread moved sharply outwards to around 150 basic points, and jumped even higher, to 190, when Continental Illinois' troubles began to hit the headlines. In fact, spreads between all instruments have widened since early April.

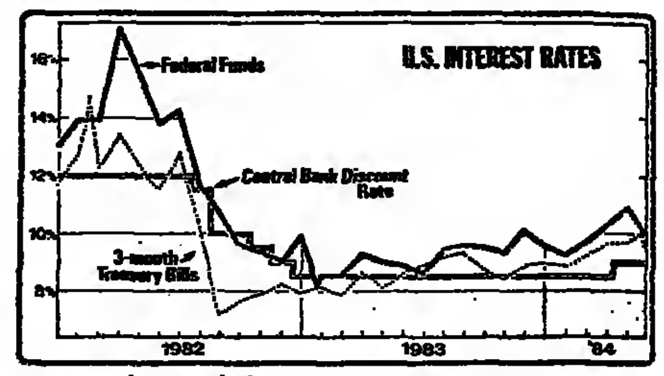
The issue of Bankers' Acceptances (an instrument used to finance trade transactions) inevitably tends to fluctuate with the volume of world trade and over the past 18 months the market has remained stuck. In July of 1983 outstanding BAs totalled $72.7bn. By December this had risen to $78bn before falling back in March of this year to $73.2bn.

In October 1982 the Fed changed the rules governing BAs, permitting banks to issue more BAs exempt from reserve requirements. And what has happened since then is that while the total volume of BAs has fallen, the share of the major banks in this area has increased. It is also true that BAs remain important to the banks because they provide commission-based income.

One indirect impact of deregulation has been to make the old definition of the money markets redundant. In the old days you could talk about Fed Funds, T-Bills, CDs BAs and Commercial Paper and that was it. No longer.

According to Miles Slater of Salomon Brothers: "You can no longer truly define what the money markets are today. The old definition of money market instruments being those under one year is debatable."

Instead, he claims one now has to refer to the "short-term money markets" as dealing with those instruments with maturities some of which extend into two or three years.



Packaged investment brings a bonanza

LAST YEAR Salomon Brothers, one of the most profitable of the big securities firms, made around 40 per cent of its $500m profit on a business which Wall Street had scarcely touched five years ago.

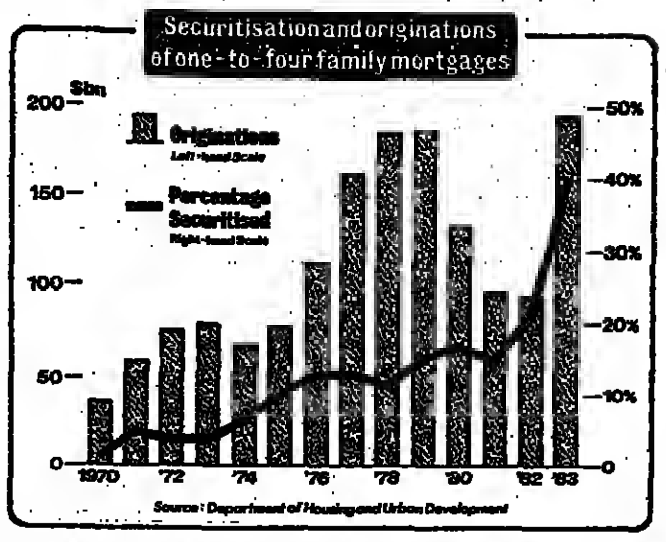
Across town at First Boston, another of Wall Street's blue chip trading firms, a similar team of dealers was also notching up the sort of profits that quickly became legend in the New York markets. For both, this extraordinary bonanza came from dealing in mortgage-backed securities, a new kind of financial instrument which has now been packaged and made palatable to the world of institutional investment.

The meteoric rise of the market for mortgage-backed securities—fixed interest paper which is ultimately backed by home mortgages — has astonished even the most bard-headed New York professionals. Last year about $85bn of mortgage-backed securities were created, substantially higher than the $54bn of the previous year, and dwarfing corporate bond new issues by more than 60 per cent. Yet ten years ago issuers were scarcely generating $3bn of tha mortgage-backed paper and at the end of the 1970s volume amounted to only about $20bn a year.

The mechanics of the market work roughly as follows. Mortgage loans are originated by local savings banks and thrift institutions, lending out fixed rate, long-term money, of typically 30-year maturity. The thrift then takes this mortgage to one of the federally-backed mortgage guarantea associations, which pools it with a group of similar obligations, guarantees the package and issues it as a security. Interest and principal are paid as normal by the home-owner on a monthly basis to the thrift, which processes and passes on the payments to the owner of the security, taking an agent's fee for its part in the transaction.

Once "securitised," to use the Wall Street jargon, the mortgages become much more liquid instruments and can be traded just like a Treasury or corporate bond. Typically they are handed back by the guaranteeing agencies to the thrifts, which either use them as collateral for raising cash or simply sell them. If sold, they are snapped up by the Wall Street investment banks and then traded on to investing institutions—the pension funds now own about 15 per cent of all securitised mortgages.

The rise of this market into a prominence where it makes headlines on Wall Street is yet another indirect result of the deregulation of the financial sector. In the early 1980s, as deregulation brought investors a myriad of new possibilities for interest-earning deposits, the thrifts found themselves severely squeezed for funds. With high interest rates prompted by the tight money policies of the Federal Reserve Board also playing their part, many of the thrift institutions were pushed into an almost impossible fix.



Historically they had financed thair mortgages, typically 30-year fixed rate assets, by borrowing short-term. In the period of relatively stable inflation and interest rates in the 1950s and 1960s this technique had proved more than edeqnate, since depositors' money was cheap and home buyers had been willing to pay a premium rate. Suddenly in the early 1980s, however, they ran into the classic problem of borrowing short and lending long: they were having to pay higher interest rates to attract new money than they were receiving on their established mortgages.

Mortgage—backed securities

TERRY DODSWORTH

As the thrifts began to stack np losses and their equity base diminished, however, the guaranteeing agencies stepped in to belp. There are three of these institutions—the Government National Mortgage Association (Ginnie Mae), the Federal National Mortgage Association (Fannie Mae) and the Federal Homa Loan Mortgage Corporation (Freddie Mae)—which either insure mortgages, in the case of the former, or guarantee them in the latter two instances.

What they did in this case, on the recommendation of the Government's Home Loan Board, was to offer to swap or buy the thrifts' old and unprofitable mortgages—often on the books at rates of 8 per cent against current deposit finance at 15 per cent. The idea was to allow the thrifts to raise cash so that they could invest in higher yielding assets and restructure their balance sheets. To facilitate this shift new rules were established to allow the loss on the loans, which had to be sold at a discount, to be amortised over their full term rather than being written off immediately.

The procedure was a tricky one but it worked, partly because a great deal of work bad gone into building up the technique of securitisation and marketing of the securities.

In terms of yield and security, the mortgage paper has generated broad enthusiasm in the market. As demand rises yields are inevitably falling but they atill stand almost one percentage point above comparable long-term Treasury bonds, against one and e half years ago. They are also regarded as being virtually as secure as Government securities since they are backed by either Federally controlled or Federally supported organisations, and are based on homa mortgages on which individuals rarely default.

The market has also become highly liquid, facilitating easy trading. "The average coupon Ginnie Mae is more liquid than a 30-year Treasury bond. They are much bigger issues and we can trada $300m at a clip," says Mr William McCauley of First Boston.

First Boston has additionally pioneered efforts to trade Ginnie Maes overseas, listing them on the Luxembourg Exchange for the benefit of West German investors, and in Singapore, along with Salomon, for the Japanese. But overseas trading has been light so far, partly because of the unusual coupon characteristics of the securities and partly because of withholding taxes.

The future of the market now depends both on fast-moving changes going on in the housing market and Wall Street's ability to innovate. There is a huge pool of old mortgages, estimated at around $1,300bn, sitting on the books of the thrifts at low fixed rates and capable of being securitised at some point to join the $250m that has been issued up to now. But these established mortgages only trickle into the market: last year it was new fixed rate mortgages that provided most of the fuel for expansion — some $75bn of the $85bn actually issued.

Thriving market despite the dramas

NEW YORK'S market for tax-exempt municipal bonds will look back on 1983 as a year of record financings, as well as one with more than its share of drama.

The total of newly-issued municipal obligations, at $81.2bn was a clear peak for the market, measured not only against the previous year's total of $77.2bn but also against the totals of $46bn or so regularly marked up in the preceding five years.

But sheer growth in volume did not mean that the market lacked problems, or even, on occasion, downrigbt dismay. Last year also brought the largest default ever experienced in the municipal market when the Washington Public Power Supply Association, or "Whoops," as it was soon christened, backed down on payment of $2.25bn of outstanding bonds, leaving private bondholders to attend a painful meeting at which they were addressed by a live broadcast, direct from the headquarters of the bank which originally backed the bond issue.

However, the market for municipal paper has continued to thrive, and the pace of new issues showed little sign of the expected slowdown in the first quarter of this year.

Some slowdown is likely, if only because last year's record level of new issues reflected in part specific factors which may not be repeated, and also because the structure of the market is undergoing a process of change.

Interest rates of municipals dipped sharply last year. In line with the general trend of the U.S. credit markets. This in ttself stimulated lending activity by U.S. local authorities, which had watched a steady deterioration of their inner city superstructures over the past decade.

More significantly, the ratio between yields on federal bonds and municipel bonds showed signs of reverting to more normal proportions. Municipals bave traditionally traded on yields of around 70 per cent of those on 20-year government bonds, reflecting their tax-free status. But the ratio bad climbed to around 90 per cent by the end of 1982 as inflation narrowed tho tax advantage. Last year, the ratio dipped to 80 per cent, which was still too high for the comfort of local and state treasurers but a move in the right direction.

Tax-exempt bonds

TERRY BYLAND

Also driving the municipal bond market along has been the significant increase in private investor interest as infletion pushed individuals into higher tax brackets. The greatest surge of private investor interest came in the late 1970s, when inflationary fears were strongest. The impetus slowed for much of last year, but there are already signs that a renewal of inflationary fears is narrowing the gap between federal and municipal bond yields.

The shift towards private investor ownership of municipal bonds was substantial in 1983. According to the Federal Reserve Board's statistics on the flow of funds, private households increased their ownership share of municipal debt from 30 per cent to 34 per cent. As recently es 1977, housebolds held only 27 per cent of municipal debt.

The growing significance of private investor ownership reflects the growing sophistication towards investment in income yielding securities which has followed the rapid development of money market instruments and money market mutual funds. Mutual funds are themselves substantial purchasers of municipal debt, and offer private investors better marketability than they obtain by investing directly.

The growing presence of private investors also reflected a further reduction last year in the prominence of the commercial banks which now hold only about one-third of total municipal debt. In part, the banks reduction of participation was prompted by the rising cost of their funds in the short term money markets as deregulation forced them to respond quickly to changes in profitability.

But the banks were also discouraged by the enactment in 1982 of the tax equity and fiscal responsibility Act (Tefra) which reduced their tax deduction on municipals.

In many cases, the calls for repairs and rebuilding were joined by pleas from local industries for loans which would at least help local unemployment. Moreover, the problems came at a time when rent and kindred local revenues were plunging as tha smokestack industries fell on hard times.

Mr John Petty, chairman of Marine Midland Bank, has estimated that U.S. municipalities will face capital outlays of around $375bn over the next six years as they are virtually forced to make good the deficiencies in local amenities stored np over the past decade. One price that local authorities, especially tha smaller ones, will have to pay for continued access to the debt markets may be a general improvement in accounting standards. The level of some local accounting has come in for criticism, with, for example, the funding of local pension plans a point of contention.

Increased participation by private investors seems a certainty for the municipal bond market, and this can only maintain the pressure for an edequate margin between federal bond yields and those on the state and local debt issues.

The prospect of tighter competition in yields is bad news for the state and municipal treasurers, wbo still have a substantial weight of funding to arrange over the next decade. The depression in U.S. business during 1980-82 bore heavily on the older cities and urban areas, which were also the very ones with decaying roads, bridges and sewers.

Mr Petty told the Council on Municipal Performance last week that municipalities failing to apply "acceptable management practices" might find difficulty getting debt underwritten, and would thus face a cost of borrowing that will be "very high."

The default at Washington Public Power Supply cast e shadow over the municipal debt markets for a time bnt this was soon lifted by the success of last year's $900m power supply bond for Intermountain Power Agency of Utah. The Utah bond, one of the largest publicly offered issues in the bistory of the municipal bond market, was successfully sold despite difficult trading conditions et the crucial moment.

Other bighligbts were the successful return to the long term debt markets of New York City, wbich had been on tha market casualty list ever since the 1975 financial crisis. The Big Apple sold $201.6m in general obligation bonds to widespread accleim in the market, increasing the total from the originally projected $150m to meet popular demand. New York City probably needs to rsise a further $1bn or so this year and will continue to benefit from the upgrading of its credit rating by the two major agencies.

The elimination last year of bearer bonds caused a distortion in business as issuers rushed to market before registration of bonds became obligatory. The distortion of trading totals will not be repeated. Moreover, the change to registered bonds has had none of the dire effects on the market predicted in some quarters.

Underwritten municipal debt issues for the first quarter, at $21.9bn are ruoning at ebout tha same rate as last year. This seems to indicate that the expected slowdown bas yet to come. Tbe deciding factor may be that of inflationary expectations, wbich are already driving yields higher and may choke off some of tha less enthusiastic borrowers.

Minds focused firmly on market timing

Fund managers

CLIVE WOLMAN

LUNCH-TIME was approaching in the private members' club (until recently for men only) which stretches across the 50th floor of a reflecting glass building just north of Wall Street.

The members and their guests gathered in small groups in front of the windows, looking out on the matchbox cars and boats below, or at the World Trade Centre towering another 57 floors above.

There were one or two stockbrokers' salesmen entertaining wealthy private clients. But most of the other groups comprised either company analysts or fund managers.

From picking up snippets of conversations, it was not difficult to tell which was which.

The analysts were discussing the fortunes of corporate America on the mainland out to the west. Some were grilling chairmen in great detail about their investment decisions, the state of their markets and so on.

The fund managers however were just talking prices and indices. Had the market been going up again in the last hour? Had First Chicago gone up as well? What about the options on the stock? What about the futures on the market? What about the options on the market relative to the futures? What about the stock index futures relative to the bond futures?

After two years in which the U.S. stock market has slumped, shot up dramatically and then fallen off sharply once again, the focus of Wall Street fund managers is now firmly on market timing, and timing with a short time horizon. "From the tops down" they call it on Wall Street. First decide which way the market is going, then pick the sectors going with or against it. After that selecting the right portfolio of shares is a secondary matter.

In Boston to the north, there remain fund managers who continue to search for the undervalued company to buy as a long-term hold; using discounted dividend models, price-earnings ratios and the like. But the trend is against them. Even many of the largest pension funds, with assets of more than $1bn, are turning over more than the entire value of their portfolios each year, either directly or by using futures and options.

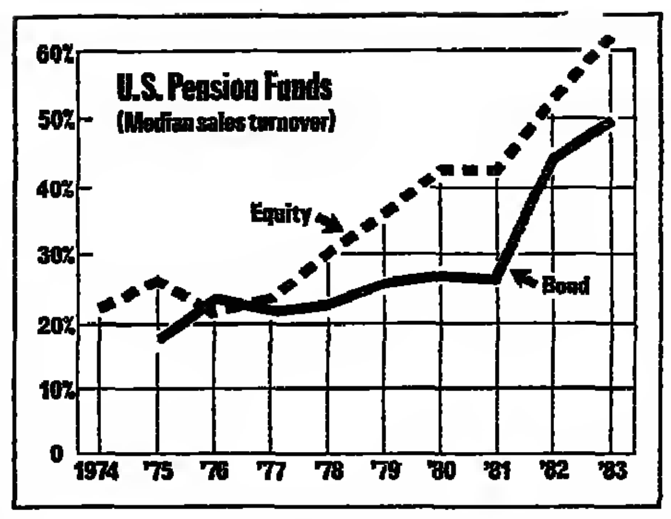
The SEI Corporation's Funds Evaluation Service, which measures the performance of over 3,500 U.S. pension funds, shows a dramatic increase in pension fund turnover during the last seven years. In 1976, the median turnover of equity portfolios was only 20 per cent. In 1982, it reached 51 per cent and last year it rose further to 61 per cent, an all-time record. The median turnover in bond portfolios was soared to a record high of almost 50 per cent from a level of only 26 per cent in 1981.

It is not only the choppiness of the stock market as a whole which is responsible for this attitude but also the variations between the different sectors of the market. Last year, the large majority of professional fund managers achieved lower returns on their equity portfolios than the stock market average as measured by the Standard and Poor's 500 stock composite index. The reason was that most invested heavily in high technology and other "growth" stocks which slumped in the second half of the year, while shares of smokestack companies recovered.

Lower returns

The SEI figures suggest that most fund managers were deluding themselves if they believed that their *frenetic* activity in buying and selling shares was worthwhile. High turnover equity funds achieved lower returns on average than their less active counterparts, last year and over the last three years.

More generally, the long-term performance figures of pension funds have been disappointing. The performance analyses of both SEI and of another, smaller measurement service, Evaluation Associates Incorporated, show that over the last 10 and 15 years the median pension funds have achieved lower returns than the stock market average. But the success of the fund managers in beating the index on average in recent years has subdued the sceptics. Senators no longer throw darts at lists of stocks to demonstrate that random selection achieves as high returns as the efforts of professional managers—and the passively managed funds designed merely to track tho stock market average have been failing to win converts.



MEDIAN RETURNS FOR FUNDS GROUPED BY SALES TURNOVER

	Annualised linked-median returns 10 years 1974-83	5 years 1979-83	3 years 1981-83	1983
Equities				
Low	9.0	17.1	12.3	23.8
Middle	9.4	18.0	12.3	21.0
High	9.4	17.5	11.5	18.7
Bonds				
Low	7.2	8.6	13.7	7.8
Middle	7.5	9.0	14.1	7.6
High	7.5	8.9	14.8	7.4

Source: SEI

The confidence of fund managers in their ability to predict the ups and downs of tho market seems unlikely to be shaken. In fact it is likely to be encouraged by the launch over the last two years of futures contracts and options on a variety of stock market indices. Trading in such contracts allow the managers to effectively "turn over" their portfolios without incurring the expense and difficulties of buying and selling large lines of stock.

So far few funds have been ablo or willing to use these contracts, *although* they discuss them, as many oncounter legal obstacles or objections from thoir sponsors. But according to Washington lawyer, Mr Jeff Rosen, a futures contract specialist, large numbers of mutual funds, the U.S. equivalent *of UK unit trusts, have* been seeking authorisation and legal edvice on how to trade the contracts.

There are a few outstanding precedents for the use of stock index futures. The $1.5bn Westinghouse Pension Fund bought $50m worth of futures and options on a falling market in August 1982 when, in defiance of theory, the futures contract stood at a discount to the cash market. Shortly afterwards, tho market soared.

A vast amount of literature from business school professors and other devotees of modern portfolio theory and the ecnomics of futures markets has poured out on the subject of stock index futures and options. And not surprisingly, the largest and most respected fund managers using tho market are tho investment managers of $2.5bn Harvard Endowment Fund.

But neither they nor any other fund managers are using the contracts as permanont bedging tools in a genuinely defensive strategy of minimising risks, in contrast to tho claims made in the promotional literature of the futures exchanges. None, for example, is willing to use the contracts to reduce permanently the stock-market related (and thus macro-economic) risk of holding U.S. company shares and achieve positive returns by successful individual stock selection.

The strategies made possible by using stock index options are more complex. But generally the fund managers are using the contracts as a way of getting into and out of the market quickly or at least more quickly than tho rest of the field.

Growth on a hothouse scale

THERE IS no hotter area in the hothouse world of mergers and takeovers at present than leveraged buy-outs. The pace of progress was hectic enough last year, when acquisition prices were rapidly bid up to not far short of the $1bn mark. Since the beginning of this year, however, three mega-deals worth a total $5.8bn have been launched, taking the leverage technique to a financial scale which would have seemed unthinkable only a couple of years ago.

The general lack of sympathy for leveraged deals at that time was based on the long-standing distaste in the stock market and investment community for companies overloaded with debt. The U.S. financial markets tend to get edgy about manufacturing groups in which debt is much more than 50 per cent of equity. Yet leveraged deals are by definition transactions in which the financing is largely through debt. With borrowing sometimes exceeding equity in a buyout company by as much as 12 times, they seem to be standing all the normal rules of sound financial management on their head.

The change in sentiment has coma for a number of reasons. First, a number of Wall Street firms have come along with a lot of new ideas an how to do the deals. They have experience, they know all the tax intricacies and they can package a transaction appealingly.

Secondly, there has been amplo opportunity. Many large conglomerates are now deconglomerating, and are willing to consider hiving off a division, management included, in a leveraged deal. At the same time, success has bred on itsolf, with some managemonts of public companies attracted to a technique they see to have worked elsewhere—and happy to take their companies private.

Leveraged buyouts

TERRY DODSWORTH

Thirdly, there has been plenty of finance available. The U.S. banks, having drawn in their horns on overseas lending, have been looking for outlets to deploy their assets at home, and the institutions are also flush with cash as the recovery proceeds apace. Investors have recently put up an equity pool of $1bn, for example, for Kohlberg Kravis Roberts, perhaps the largest private firms specialising in leveraged deals: that pool of equity can used to "leverage" much higher deals.

Fourthly, tho poor stock market performance of the 1970s had left many companies undervalued, particularly those in unglamorous sectors of the economy where most buyout specialists like to concentrate their efforts. A recent samplo of buyouts, includes Amstar, the sugar company, Womotco, an entertainment cable television and soft drinks bottling group, and Dr Pepper, the drinks company. The two largest offers, each valued at over $2bn, are for Esmark and City Investing, both diversified conglomerates containing several established companies.

The attraction of this kind of company is that their known performance minimises the business risk so that the financial exposure can be finely calculated. The ideal buyout targets are companies with an established ability to throw off cash (to repay the debt) while having no great requirement for new capital expenditure.

In many cases, this type of company has also built up sizeable assets that are undervalued in the books and can be sold off judiciously. Indeed, one of the reasons why many leveraged deals have come under criticism is that the takeovers have been followed by a process of asset stripping which offends investors who wish to see the creation of new wealth.

It is now beginning to look questionable, however, whether this strategy will continue to work as smoothly as in the past. In the first place, the banks are becoming palpably more hesitant about tho risks involved in highly leveraged deals. Many have already run np large amounts of non-performing loans olsewhere and do not want more from dabbling in buyouts.

Moreover, it is not as easy as it onee was to pick np companies cheaply. As tbo technique has become popular, prices have been bid np to the point where prudence demands a larger equity element in the transactian, making it more difficult to finance, and less profitable to the buyont specialist.

Criticism of artificial impact on prices

AS THE U.S. futures markets prepare to leunch a new range of contracts designod to allow for the first time the bedging of four types of business-cyclo risks, the industry has been subject to a fresh wave of criticism which strikes at the basis of lts survival.

Despite 15 years of rapid growth in which the number of contracts traded annually has multiplied more than 12-fold, futures markets bave been unable to shake off their rather seedy image as places in which speculstors get rich quick at the expense of ordinary consumers.

In April, Senator Roger Jepsen, a Republican from tho farming state of Iowa, responded to criticisms of the markets, particularly from farmers, by calling a bearing of tho Joint Economic Committee of Congress. The issue they discussed was the price volatility and efficiency of commodity futures markets. In his statement at the hearings, Sen Jopsen said that "thore exists e credibility cavern . . . whicb is growing wider and wider between the futures market and those who have a pbysical interest in the commodity.

"Wo must begin to close this credibility cavern before it engulfs us all."

The target of the critics at tho Congressional hearing was primarily the computorised trading of the managed commodity funds into which private investors pool their money and allow it to ba managed by supposedly a team of professional speculators.

One of the strongest statements made at the hearing came from Mr Robert Raclin, a director of the world's two largest futures exchanges, the Chicago Board of Trada and the Chicago Mercantile Exchange, and also of the giant U.S. brokerage company Merrill Lynch. He claimed: "These pool operators *are rapidly destroying* futures markets for all hedgers."

Tha ability of these operators to move the market by the weight of their money, he explained, has encouraged floor traders merely to follow them rsther thsn carry out their own analysis. This has caused prices to fluctuate violently independently of any changes in the fundameotal factors affecting supply and demand for tbe underlying products.

The futures markets bave taken steps to protect themselves for example by imposing limits on the emonnt of speculative contracts that can be bought or sold by a trader.

But the managed funds are able to bypass these constraints and because of the nature and the speed of reaction of their computer-driven technical analysis, one fund's reaction quickly triggers off another in the same direction.

According to Mr Lee Rose, of Columbia, Maryland, a statistical analyst of the futures markets, there is about $2bn of investors' money in U.S. commodity funds including about $400m in public funds. Dealing on margin allow them to magnify their impact on the market.

Futures and options

CLIVE WOLMAN

This type of trading is not necessarily rewarding to tha speculator. In fact, over the last 18 months nearly all tho managed commodity funds have consistently lost large amounts of money for their clionts. Other evidence at the hearing suggested that farmers probably benefitod on average from the temporary fluctuations in prices engendered by the funds — and in any case in tho longer term the prices of futures contracts were fairly efficiently determined.

Nevertheless, the poor reputation of futures markets has meant that only a small proportion of U.S. farmers, about 10 per cent it is estimated, use tho futures markets directly, although a larger number make indirect use of the markets through their forward contracts with elevators. The lifting of the ban imposed in 1936 on the use of options on agricultural commodities is expected to stimulate further use of secondary contracts as a tool for hedging by farmers.

It is in the field of financial futures and options however thst the most remarkable growth has taken place, since their launch in Chicago 12 years ago. But here too most of the markets are dominated by floor traders, arbitrageurs and speculetors. This has been most noticeebly truo in the growing number of contracts on the U.S. stock market indices.

Although these contracts have echieved record popularity, most of the turnovor comes from traders on the floor of the exchange. Mr Howard Baker, vice-president of the options division of the American Stock Exchange, estimates that of the turnover of the options on the major market index, which is designed to track the Dow-Jones Industrial Average, 75 per cent is due to on-the-floor traders.

Other U.S. exchanges roport similar figures. Mr Ivers Riley of the Naw York Stock Exchange estimates that only 5 per cent of tho turnover in stock index options comes from *professional institutional* investors.

Tha institutions which should theoretically be the main usors of the other markets beve been slow to move in. For example, the Chicago Mercantila Exchange estimates that only a few hundred U.S. banks, less than 10 per cent of the total, use financial futures to hedgo their interest rate risks. And very few industrial companies have dipped their feot into tho market even during the upsurge in interest rates in 1980, although IBM executed a successful bedge at the time.

According to Mr John Kelley, a founder of tho New York Futures Exchange, "The innovativeness of American industry is usually in the field of technology and marketing, not *in finance*. Corporate treasurers are not paid to think up anything new."

In view of these difficulties, scepticism surrounds the plans of New York's Coffee, Sugar and Cocoa Exchange to launch four new futures contracts on key *economic* indices. These are:

- Tha CPI-W, the Consumer Price Index for Wage Earners, which will allow both companies and private savers and investors to hedge against the risks of rising inflation.
- The index of housing starts and the index of retail new car sales which allow the house-building and car manufacturing industries and their suppliers to bedge against a slump in demand.
- A new index which would measure the average earnings per share of the top 100.100 publicly traded manufacturing firms in the U.S. as ranked by sales. This contract would allow companies to hedge against, for example, e sudden economic down-turn which meant that corporate earnings were lower than anticipated by analysts.

An application to trade these contracts has been submitted to the Commodity Futures Trading Commission and the exchange expects to start trading the first contract, on tho CPI-W, in Octobor or November.

States give ground on unitary issue

Taxation

CLIVE WOLMAN

THE PRESSURES to reduce the size of the Federal Government deficit are behind all the major tax changes and controversies in the U.S. over the past year.

These pressures form the theme of the two tax Bills currently being considered by the Senate and the House of Representatives; they run to a record 2,300 pages and well over 600 clauses in an attempt to raise an extra $550bn over the next three years by closing tax avoidance loopholes.

The attempt to crack down on corporate tax avoidance which has generated most interest and controversy outside the U.S. over the past year has been the imposition of the "unitary" method of taxation by individual states on multi-national companies. Under this method the states tax a proportion of a group's worldwide earnings rather than just the profits of its local subsidiaries.

The decision to switch to a unitary method of taxation is taken at the level of the individual states and has often been imposed by administrative decree based on an interpretation of existing tax law rather than as a result of legislative reform. At present 12 states are levying worldwide unitary tax in one guise or another.

The freedom of individual states to introduce unitary tax was upheld by the Supreme Court in a landmark decision last June. At the time the Federal Government declined to oppose the principle of unitary tax before the Court but since then, under pressure from multi-nationals and from the UK and Dutch Governments, the Federal Government has become deeply involved.

President Reagan last autumn side-stepped the problem by setting up a special task-force composed of business and state representatives to review the issues. To the surprise of many, however, the Presidential task-force last month succeeded in reaching a consensus on at least some of the issues.

The major breakthrough was an agreement that the states should tax foreign corporations only on income earned in the U.S. The purview of the taxman would end at "the water's edge." This approach is already being adopted by three unitary states—Florida, Massachusetts and Minnesota—and the Supreme Court in any case has yet to decide whether a state can go beyond the water's edge when dealing with a foreign corporation.

In return for this concession the Federal Internal Revenue Service would supply additional information and assistance to the states in their dealings with multi-nationals. One issue which was not resolved, however, was the taxing of dividends on the foreign earnings of U.S.-based corporations.

U.S. Treasury officials in Washington have remarked that the states have made greater concessions in the agreement than they originally believed possible. Doubts remain, however, as to when or how the states will implement the recommendations.

The disputes between the states and the multi-nationals run deeply. The states have been under pressure to find extra sources of revenue to compensate for federal spending cuts. They claim that the method of separate accounting used by the non-unitary states and by most other countries is too easily subject to manipulation by the multinationals.

Instead the states prefer to tax a proportion of the group's worldwide profits. The proportion is normally determined by reference to the valne of tho in-stato payroll of the group, of the in-state property of the group and of the in-state sales of the group. California, the largest unitary state, says the method yields it an extra $500m a year, the annual yield to all tho other unitary states together is estimated at $250m.

The multi-nationals claim the system is unfair for several reasons. Each state is tempted to adopt a formula for the appointment of profits which is most favourable to itself. Unitary tax means less tax for only about 15 per cent of companies.

Another objection is that unitary tax imposes heavy compliance costs, at least in the first year of the exercise. The profits of non-U.S. subsidiaries calculated under a variety of accounting conventions have to be re-calculated and reams of evidence are often required to back up the figures.

The companies also fear that the States' action could serve as a precedent for other countries, particularly some of those in the Third World, to impose unitary tax.

In addition to some subtle Federal Government arm-twisting, the States have also faced economic pressures to modify their unitary tax systems. Florida is considering the abandonment of the unitary method, which it adopted only last year after being threatened with an investment boycott; Illinois has also watered down its approach.

Even California, which has often claimed that the size and wealth of its market made it immune to threats of re-location, has been affected perceptibly. Many companies now warehouse their supplies in neighbouring Nevada and truck them into California. On the day three months ago that companies' stocks were being counted in California for tax purposes, train-loads of supplies could be seen waiting to enter the State on the Nevadan border.

The strident protests against unitary tax, particularly by the UK Government, have made U.S. Treasury officials more wary about offending foreign interests. This it appears is the explanation for the Treasury's current attempt to persuade Congress to drop proposals for a 3 per cent excise surcharge on casualty re-insurance premiums which would harm the Lloyd's of London.

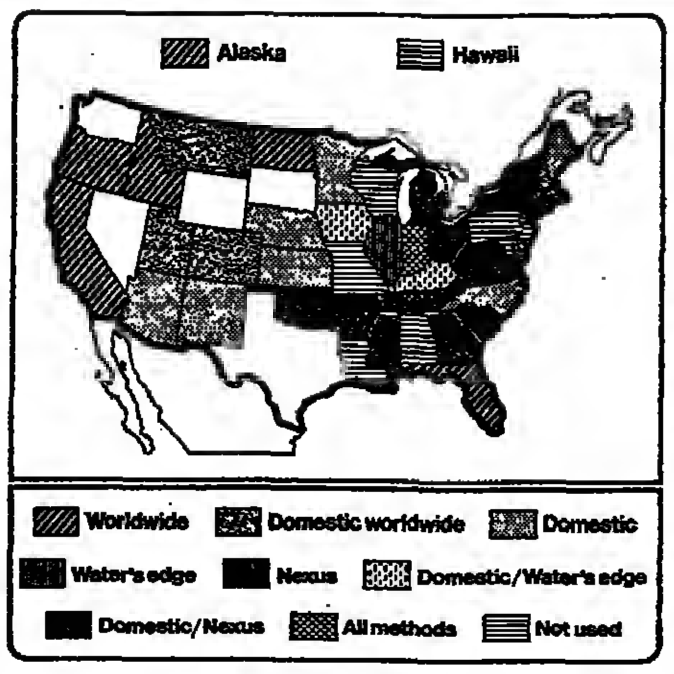
The tax Bills being considered by Congress, which should pass in a unified form by the end of this month, aim to placate the Common Market countries in another respect also. The privileges granted to U.S. exporting companies in the form of deferred tax are to be repealod to conform to the rules of GATT.

The most radical innovation behind the anti-avoidance provisions which dominate the two Bills is the introduction of the concept of the time value of money. This forms part of a more general attack on the schemes designed by the promoters of tax shelters for wealthy individual investors.

The trick was to claim a deduction of, say, $1,000 of expenses in this tax year to meet a $1,000 cost which will have to be paid only after perhaps 10 years. In future if taxpayers deduct a cost up-front, they will be permitted only to deduct the value discounted by an annual rate of interest. Alternatively they can write off the expense against tax only when it becomes payable.

The proposal will affect in particular the real estate tax shelters, life insurance companies and the purchasers of deeply discounted bonds.

If the principle were to be applied consistently even small businesses would have to adopt a much more sophisticated accounting system to ensure that they deducted expenses only when they accrue. According to Mr Paul Bodner, tax partner of accountants Main Hurdman in New York: The problem is how you defoliate Vietnam without killing the people beneath the trees. By attacking a small abuse in this way you make things very complicated even for the ordinary man."



The unitary method

A Worldwide: All affiliates, regardless of the place of incorporation, including any foreign parent corporation and the foreign parent's foreign subsidiaries, are included in the apportionable base.
B Domestic Worldwide: Affiliates owned by a U.S. parent corporation, regardless of the place of incorporation, are included in this combination.
C Domestic: Affiliates that are incorporated in the United States are included in this apportionment.
D Water's Edge: The taxable income of affiliates, to the extent of the business they do within the United States, is similarly apportioned by use of combined percentage of property, payroll, and sales.
E Nexus: *Includes only those affiliated corporations that are* either domiciled within the state or deriving income from sources within the state or some variation thereof.

Source: Arthur Young

Competition exacts a price

Insurance

TERRY DODSWORTH

IN COMMON with the rest of the U.S. financial services sector the insurance industry is today facing a period of palpably increasing competition. Regulated prices have disappeared in the property and casualty business and it has become easier for newcomers to force themselves into the industry across the whole gamut of services. The results for consumers have inevitably been mixed.

On the positive side prices have undoubtedly stabilised. This is particularly true in the property and casualty business where the era of heavy inflation in the late 1970s has now given way to a period of strong price competition.

At the same time insurance is steadily becoming more varied and easier to buy. The big financial services companies like American Express sell it through the post as just one more aspect of their diversified range and some large Wall Street broking houses are moving in as well. Sears Roebuck, for example, the giant department store chain, which owns the Dean Witter brokerage firm, has slipped insurance boutiques into its shops alongside its broking and banking offices.

As yet the banks themselves have been precluded from the industry but there are already signs of these restrictions breaking down in some states.

The more competitive environment, however, has also produced strains that have shown up in a number of ways. First, it has produced several embarrassing problems for the industry. Perhaps the most notorious of these was the collapse of Baldwin-United, a company which had diversified into insurance and very rapidly built itself into a major presence.

Baldwin was selling a relatively unusual product, a single premium annuity, which gave a high return for one single down payment. It had also marketed it very aggressively, using in particular the outlets of several of the big Wall Street broking houses. In both these respects it had come up with a novel formula but its investment policies, which relied heavily on pumping premiums back into other parts of the same group rather than placing them in safe securities, very rapidly led to its downfall.

The embarrassment of the industry over Baldwin is shown by the speed with which the broking houses and other insurance companies—some of whose agents helped sell the policies—have come up with plans to guarantee annuity holders at least some return on their investments.

Competitive pressures and the drive for high performance may also have been one of the factors behind the enormous $90m security trading loss which Marsh and McLennan, the insurance broker, was forced to declare earlier this year. The deficit arose mainly from speculating in "when issued" Government securities—buying bonds which have been announced but not issued, in the expectation of price moves.

This is an extremely risky form of investment and not one normally entertained by brokerage companies.

Over the longer term, the new era of deregulated competition has placed two question marks over the industry. The first, for the life companies, concerns their capital structure and whether or not they should de-mutualise. At present almost 60 per cent of the life insurance industry's assets are held by mutual companies, led by the giant Prudential Insurance, with $72.2bn worth of assets, and Metropolitan Life, with $60.6bn. But recent tax proposals, which would place a greater burden on mutual companies than on stockholder-owned corporations, have given some urgency to discussions on possible de-mutualisation.

The issue is also tied up with financial deregulation, because it is easier for publicly owned companies than for mutuals both to raise capital and to diversify through acquisition into other sectors of the financial services industry. Some states are clearly in favour of moves to support demutualisation.

For the moment the management of the big companies is acting extremely cautiously on the issue. Some smaller companies have already de-mutualised, but the larger ones, including the Prudential, Metropolitan and New York Life, have so far limited their reactions to the establishment of study groups.

The second question concerns the property and life industry, which has been virtually forced to its knees by the escalation in competition over the past few years. These pressures also relate back to deregulation, a process which has totally undermined the post-war system of recommended rates. But they have also been intensified by the drive of foreign companies into the U.S. market, along with the establishment of property and life companies by outsiders — Armco, the steel company, for example, diversified into this sector after setting up insurance for its own activities.

These changes in the insurance market place naturally intensified the effects of the economic recession in the early 1980s. The recession hit the underlying underwriting business of the main property and casualty insurance companies because it reduced the amount of business available. Although this was true of all sectors, including private client business, it was particularly the case in commercial lines, as industry cut back production and closed factories.

In addition, many large industrial customers have reduced their need for insurance over the last few years by their increased use of risk management techniques.

The result of these contractions in the market place and increases in supply was to produce a market with far too many underwriters chasing too little business. While this is a normal phenomenon of the underwriting cycle, the effects were particularly vicious this time round, causing rates to plunge to a level where underwriting has become entirely unprofitable.

Meanwhile, many insurance companies failed to bring down expenses, as they followed the strategy of maintaining or increasing market share—and thus volume—by piling more pressure into sales.

To a large degree the final financial results of the big insurance companies have been buoyed up by healthy returns on investment income — a normal counterbalancing effect on insurance profits in times of underwriting difficulty. At the height of the recession, the dizzy level of interest rates gave the companies an enormous earnings cushion. Last year, however, the interest rate cushion began to deflate and the consequent decline in investment income was in some cases sufficient to eradicate profits altogether.

The squeeze has continued this year as well and, as if this were not enough, the industry has also been hit by an exceptional run of heavy weather-related disasters.

Three recent disasters all ranked among the most expensive in U.S. history, with total liabilities coming to around $1.5bn and they have combined to push the industry further into its present parlous position. First quarter results, following on some extremely modest figures for last year, have been terrible, with both Cigna and Kemper Corporation, for example, reporting operating losses. The big conglomerates have also been licking their wounds—Armco has decided to divest its insurance activities, while both American Express and ITT have seen their results suffer.

The way out of this mess was sketched out clearly earlier this year by Mr Daniel McNamara, president of the Insurance Services Offices. The industry, he told a conference in New York, must stop writing policies at hyper-competitive prices which do not reflect the costs of providing the service.